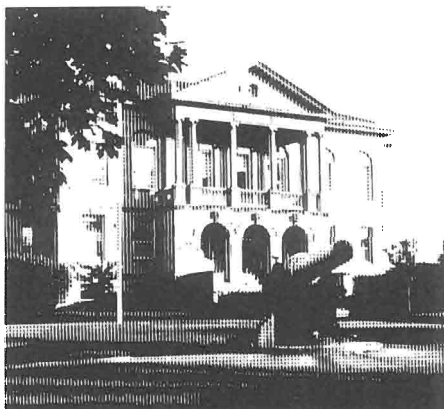


City of Alpena

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended
June 30, 2005



Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ALPENA, MICHIGAN	County ALPENA
Audit Date 06/30/2005	Opinion Date 11/04/2005	Date Accountant Report Submitted to State: 12/22/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).		X	

Certified Public Accountant (Firm Name) STRALEY, ILSLEY & LAMP P.C.			
Street Address 2106 U.S. 23 SOUTH P.O. BOX 738		City ALPENA	State MI
Accountant Signature <i>Mark J. Straley, CPA</i>		ZIP 49707	Date 12/22/05

COMPREHENSIVE ANNUAL FINANCIAL REPORT

CITY OF ALPENA

June 30, 2005

City Council

John F. Gilmet, Mayor

David R. Karschnick Sr., Mayor Pro-Tem

Carol A. Shafto, Councilwoman

Michael P. Polluch, Councilman

Sam Eiler, Councilman

City Manager

Alan L. Bakalarski

Prepared by:

City Clerk/Treasurer/Finance Director's Office

Financial Officer

Karen Hebert

Independent Auditors

Straley, Ilsley & Lamp P.C.

TABLE OF CONTENTS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

City of Alpena
June 30, 2005

	<u>Page</u>
I. INTRODUCTORY SECTION	
A. Transmittal Letter	3
B. Certificate of Achievement for Excellence	26
C. Organizational Chart	27
D. Administrative Staff	28
II. FINANCIAL SECTION	
A. Independent Auditors' Report	30
B. Management's Discussion and Analysis (required supplementary information)	32
C. Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	45
Statement of Activities	46
Fund Financial Statements	
Governmental Fund Financial Statements	
Balance Sheet	48
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	51
Statement of Revenues, Expenditures, and Changes in Fund Balances	52
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	55
Proprietary Fund Financial Statements	
Statement of Net Assets	
Business-type Activities - Enterprise Funds	
Governmental Activities - Internal Service Funds	56
Statement of Revenues, Expenses, and Changes in Net Assets	
Business-type Activities - Enterprise Funds	
Governmental Activities--Internal Service Funds	58
Statement of Cash Flows	
Business-type Activities - Enterprise Funds	
Governmental Activities--Internal Service Funds	60
Fiduciary Fund Financial Statements	
Statement of Fiduciary Net Assets	64
Statement of Changes in Fiduciary Net Assets	65
Component Units Financial Statements	
Statement of Net Assets	67
Statement of Activities	68
Notes to Financial Statements	70

D. REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedules

General Fund	91
Major Funds	92

Defined benefit pension trust	94
-------------------------------	----

E. INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES

General Fund	
Comparative Balance Sheet	96
Comparative Schedule of Revenues, Expenditures and Fund Balances - Budget and Actual	97
Non-Major Governmental Funds	
Combining Balance Sheet	104
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	106
Budgetary Comparison Schedule	108
Internal Service Funds	
Combining Statement of Net Assets	112
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	113
Combining Statement of Cash Flows	114
Water Fund	
Comparative Schedule of Net Assets	118
Comparative Schedule of Revenues, Expenses and Changes in Retained Earnings	119
Comparative Schedule of Cash Flows	120
Sewage Fund	
Comparative Schedule of Net Assets	122
Comparative Schedule of Revenues, Expenses and Changes in Retained Earnings	123
Comparative Schedule of Cash Flows	124
Fiduciary Funds	
Combining Statement of Net Assets	128
Combining Statement of Changes in Net Assets	129
Combining Statement of Changes in Assets and Liabilities – Agency Funds	130
Schedule of Indebtedness	131

III. STATISTICAL SECTION (Unaudited)

Table

Financial Trends

1	Net Assets by Component	137
2	Changes in Net Assets	138
3	Fund Balances of Governmental Funds	140
4	Changes in Fund Balances, Governmental Funds	142

Revenue Capacity

5	Assessed and Estimated Actual Value of Taxable Property	144
6	Property Tax Levies and Collections	144
7	Principal Taxpayers – Top Ten	146
8	Direct and Overlapping Property Tax Millage Rates	148
9	Special Assessment Collections	148

Debt Capacity

10	Ratios of Outstanding Debt by Type	150
11	Ratios of General Bonded Debt Outstanding	150
12	Legal Debt Margin Information	152
13	Computation of Direct and Overlapping Debt	154

Demographic and Economic Information

14	Demographic Statistics	155
15	Principal Employers – Top Ten	156

Operating Information

16	Full-time Equivalent City Government Employees by Function/Program	158
17	Operating Indicators by Function	158
18	Capital Assets Statistics by Function/Program	160
19	Miscellaneous Statistics	162

I. INTRODUCTORY SECTION

The Introductory Section Contains:

- A. Letter of Transmittal**
- B. Government Finance Officers Association
Certificate of Achievement**
- C. Organizational Chart**
- D. Administrative Staff**



City of Alpena

CITY HALL • 208 NORTH FIRST AVENUE • ALPENA, MICHIGAN 49707-2885
www.alpena.mi.us

November 4, 2005

To the Honorable Mayor, Members of the City Council,
and Citizens of the City of Alpena:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Alpena for the fiscal year ended June 30, 2005. Responsibility for the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. In our opinion, the data is accurate in all material aspects, is presented in a manner designed to fairly set forth the financial position and results of operations of the City, and contains all disclosures necessary to enable the reader to gain an understanding of the City's financial affairs.

The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Government Accounting Standards Board (GASB). This report consists of management's representations concerning the finances of the City of Alpena, Michigan. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City has established a comprehensive internal control framework that is designed both to protect the City's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The comprehensive annual financial report is presented in three sections: introductory, financial, and statistical. The introductory section includes the Certificate of Achievement for Excellence in Financial Reporting, the City's organizational chart, this transmittal letter and a list of administrative staff. The financial section includes the basic financial statements, which include government-wide financial statements, fund financial statements, footnotes and required supplementary information and the combining and individual fund financial statements and schedules, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds and account groups of the government. The government provides a full range of services. These services include police, ambulance and fire protection; the construction and maintenance of highways, streets, and infrastructure; cemetery services; recreational activities and cultural events; Dial-A-Ride transportation services, and water and sewage services. In addition to general government activities, the City exercises significant influence or accountability based primarily on operational or financial relationships (as distinct from legal relationships) with the Building Authority, Downtown Development Authority and the Economic Development Corporation; therefore, these component unit activities are included in the reporting entity.

The City's financial statements have been audited by Straley, Ilsley & Lamp P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Alpena, Michigan, for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Alpena, Michigan's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of *Management's Discussion and Analysis (MD&A)*. This letter of transmittal is designed to compliment MD&A and should be read in conjunction with it. The City's MD&A can be found immediately following the report of the independent auditors in the financial section of the CAFR.

PROFILE OF THE CITY OF ALPENA

The City of Alpena is the county seat of Alpena County. Alpena is located on the west shore of Lake Huron and is one of the oldest chartered communities in the Lower Peninsula. Alpena is a community highly dependent on its industrial base, as it has been since it was laid out in 1840. In the early historical days, Alpena was a thriving lumbering/logging community, reaching a peak population of 15,600 in 1897. By the end of the 1880s, Alpena was nearing the end of its lumbering heyday when the cement industry surpassed the lumbering industry in the early twentieth century. The cement industry continues to remain an integral, valuable, and important part of the City. Many government agencies, organizations, and commercial concerns make the City their headquarters for this area and lend stability to the economy. Alpena continues a gradual economic growth.

According to the 2000 census, the City of Alpena, with 11,304 persons, is the largest political entity within the county and comprises more than 37% of total county population. The City is completely surrounded by Alpena Township. The City has 4,874 households with a total of 5,200 total housing units according to the 2000 census. The largest percentage of workers (18.7%) are employed in the retail trade industry; 16.3% are government workers; 12.87% manufacturing; health services 10%, and educational services 9.6%. Totally, 4,558 workers are employed in the City. In a 10-year period through June 30, 2005, the increase in taxable valuation was 29.94% to \$252,148,258.

Municipal services provided to its taxpayers include: legislative, executive, elections, assessing, finance, public safety, law enforcement, fire protection, ambulance, building inspection, parks and recreation, an electrical division, cemetery, cultural, conservation of natural resources, planning, engineering, and other functions. In addition, the City maintains three enterprise funds, which provide water, sewer, and public transportation services. Other funds include transportation and computer rental services and a construction fund. The City also established a Budget Stabilization Fund (Rainy Day Fund), Public Works Building Construction Fund, and the Building Authority Fund.

The City of Alpena operates under the Council-Manager form of government. The City's charter was adopted September 1, 1915, and then revised March 13, 1944. The Council consists of five members who are elected by the residents of the City who are qualified to vote under the Constitution and Laws of the State of Michigan. The members of the Council serve for a term of four years. The Mayor of the City is elected at large by the voters of the City and also serves a four-year term.

The City Charter provides for a chief administrative office headed by a City Manager. The City Council appoints the City Manager based on his/her education, work experience, training, and ability without regard to political preference. The Manager serves at the pleasure of the City Council. The Manager appoints the Assistant City Manager, City Engineer, Public Safety Director, City Planner/Administrative Aide, Management Information Systems Director and others as may be determined by the City Council, all subject to confirmation by the Council. The offices of City Clerk/Treasurer/Finance Director, City Attorney, and City Assessor are appointed directly by the City Council.

ECONOMIC CONDITIONS AND OUTLOOK

The continued decrease in revenue from the State has forced the City to reduce capital projects and keep vacant positions unfilled in the departments of Public Works, Police, and Fire. Clerical staff in the Clerk/Treasurer/Finance Director's office was reduced from four full-time positions to three full-time and one part-time position.

Challenges are approached from a positive manner, and the leadership attempts to direct efforts from a regional perspective. Developments within the education and medical communities continue to enhance and strengthen the City. Private sector development has experienced modest gains, and the local real estate market is stable. Infrastructure improvements have made a significant difference in the aesthetic appearance of the City's residential areas, business community, and utility operations. Residential improvements continue to progress as the community image improves. Tourism is viewed as an activity, which promotes the area and attracts visitors in increasing numbers each year. These visitors make a contribution to the vitality of the business community throughout the region. Unemployment rates in Alpena County as a whole are above average at 9.2% for 2004 compared to 7% for the State. Alpena is actively preparing for accommodating a large and growing elderly population who settle in the area close to the regional hospital. Hunting, fishing, and nearby Lake Huron make the environment conducive to exceptional living.

The City has been an active participant in attempts to redevelop the former Fletcher Paper Mill site. In August 2002 Alpena Marc LLC, (Jeff Konczak, Managing Partner) acquired the mill and its assets. Mr. Konczak has proposed converting the mill to a mixed-use development consisting of retail, institutional, restaurant, hotel, and limited-specialty manufacturing (brewery & soft drink manufacture) uses utilizing the existing buildings and restoring the oldest portions of the mill to their appearance circa the 1920's. New construction will mirror the architectural style of the existing buildings. A boardwalk, varying in width between 10 and 25 feet, will extend along the Thunder Bay River from Second to Ninth Avenues, a distance of nearly 3,000 feet. Total project cost over a 6 to 8 year build-out is projected at approximately \$33 to \$60 million. The first phase consisting of the Great Lakes Maritime Heritage Center (visitors and interpretive center) and the Fletcher Street Brewing Co. completed construction in 2005. The Maritime Heritage Center held its grand opening on September 17. Over the course of the next two years new inter-active exhibits will be developed including real time video access of a number of the shipwrecks. The brewery began operation in late summer with a tasting and special events room opening in November. For the upcoming year Alpena Marc will be focusing on the development of the boardwalk and the hotel/conference center in the main portion of the mill.

In support of this project the City applied for and received a \$1.6 million CDBG grant for infrastructure improvements along Fletcher Street (the main entrance to the development) including sanitary sewer and water upgrades, street reconstruction, new sidewalks, decorative paving, period pedestrian lighting and street trees. The City will be investing an additional \$527,891 in the infrastructure project. With an agreement in place with the railroad to remove the old condemned tracks within Fletcher Street, the final design is proceeding. Construction will begin in Spring 2006 with completion by the end of the construction season.

The City's North Industrial Park, established in the early 1970s, is nearly full, one lot remaining. In an attempt to provide additional sites for light industrial growth, the City, in conjunction and partnership with Target Alpena, has developed a new business enterprise park for light manufacturing and commercial ventures. This new park has been named the "Commerce Industrial Park", has 15 lots available for development, and is located in a state approved tax-free renaissance zone. This new development also included the construction of Commerce Drive, which reduced the amount of truck traffic through the residential neighborhoods on the City's North Side and Target Drive within the park.

The City of Alpena in partnership with Alpena, Presque Isle and Grand Traverse Counties and the Cities of Onaway, Rogers City and Traverse City was successful in its application for the establishment of the Northern Tier Renaissance Zone. Four of the ten approved sub-zones are located within the City of Alpena. Renaissance Zone designation provides major tax incentives to promote new and expanding economic development within each sub-zone. Eligible businesses, property owners and residents within

the Renaissance Zone are exempt from State single business, personal income, local property (does not include debt retirement and special assessments) and education taxes for the duration of the Zone (15 years commencing January 1, 2000). A request by the City to extend the termination date for the Oxbow Park and Armory sub-zones through 2017 was approved by the MEDC. Additionally, a modification of the boundaries of the Armory sub-zone was also approved.

The four sub-zones located within the City are Commerce Industrial Park, Oxbow Park, the Southwest Residential Site and the National Guard Armory. Commerce Industrial Park contains fifteen 1-acre lots targeting new and expanding small businesses. Construction of the industrial park was completed in Spring 2001 and the final plat approved by the State the following summer. The first lot was sold by Target Alpena in 2005 and is currently being developed as a propane gas distribution center. Target is also in discussion with other prospective purchasers for additional lots.

Oxbow Park, located on the City's northwest side, contains approximately 40 acres. The selected developer, Walden Properties LLC envisions a mixed-use development based on the neo-traditional new urbanism model reflective of our cities and small towns of the first half of the 20th century. "Oxbow Village" will contain approximately 130 residential units apartments and condominium units over retail uses. A village core featuring a town square with mixed retail and office uses with residences on the top floor is a key feature. A small office cluster is proposed at the south end of the site. Various site amenities include an extension of the City's bi-path system, park-like common areas, a pond, and clock tower. Total project costs are estimated in excess of \$50 million. The MDEQ completed environmental and geo-technical testing at the site with the report delivered to the City and Walden in March 2002. Following a review of the report by Walden negotiations were intensified to complete a development/purchase agreement for the property. This was completed in August 2002. Since then the MDEQ has approved Walden's Due Care Plan for the property. General site clearing occurred in late 2003. Site construction (utilities and streets) commenced in fall 2004. Walden Properties has sold it first sites adjacent to the pond for the development of a senior housing community containing both assisted and independent living units. The first phase of construction commenced construction in November 2005. The developer is currently in discussions with 2-3 additional parties for the development of office and residential components of the village. The final infrastructure improvement – installation of a water main extension – was completed in 2005. To assist the project, the City applied for and received a \$1.4 million CDBG grant from the Michigan Economic Development Corporation (MEDC) for off-site infrastructure improvements (streets, water, storm sewer) necessary to support the project. All improvements were installed in 2004 except for a water main extension that will be constructed in spring 2005. The Southwest Residential Site is a triangular parcel containing approximately 15 acres located on the north side of Grant Street west of the D&M Railroad tracks. With 60% of the site covered by wetlands any development will require clustering of buildings. A one-year option on the property held by a developer intending to develop senior independent housing lapsed during the summer. The City has begun discussions with another possible interested party.

The National Guard Armory Building on Water Street is still presently owned by the State of Michigan, A previous purchased agreement expired; however, the State has entered into a second agreement with a new developer whose plans include a mixed-use facility of retail and office uses in conjunction with the use of the central hall for both public and private special events, in keeping with its historic use. The City assisted in the completion of an environmental assessment and BEA of the building through its MDEQ Site Assessment Fund grant and is currently in the preliminary stages of creating a historic district including the Armory, Federal Building and City Hall to make the development eligible for federal and state historic preservation tax credits. It is anticipated that the sale of building will be completed by the end of 2005.

The City has very recently completed the assembly of land along U.S. 23 North across the road from the North Industrial Park for future industrial and commercial development. The City purchased approximately 100 acres of land. The purchase of this land by the City will provide unique opportunities to enhance its economic base and attract new industry and business to the City. The City is currently in negotiations for the sale of an 8.5+ acre parcel at the south end of the site fronting directly on US 23 for the development of a new automobile/truck sales dealership, and will entertain other proposals it considers consistent with its vision for the site.

The City successfully completed its second MSHDA Rental Rehabilitation Grant program. A total of 23 units were rehabilitated at a total cost of \$448,000 ((\$300,000 in MSHDA funds and \$148,000 investment by local landlords. The MSHDA funding is in the form of a "forgivable loan or mortgage", which is released by the City following a 5-year "affordability period" during which the rehabilitated unit must be rented to low or moderate income households and rents capped at levels prescribed by MSHDA. To date through two grants a total of forty (40) units have been rehabilitated and made available to low income households. In July 2005 the City was awarded its third MSHDA Rental Rehabilitation Grant totaling \$336,500. Unlike the previous two grants that were city-wide in scope, this grant targets two distinct areas of the City. The first on the City's north side, is a residential area extending out a two block radius from the Lincoln Elementary School. Landlords within this targeted neighborhood will be eligible to apply for funding to assist in the rehab of existing rental units for low income households under the same guidelines as the previous two grant programs. The second area lies within the City's DDA District and involves a new program.

Eligible property owners may apply for MSHDA funds to assist in the development of new rental residential units in the upper floors of downtown commercial buildings. The goal is that this program in combination with the tax abatement incentives of the overlapping Neighborhood Enterprise Zone will spur the creation of additional housing in the City's downtown, a primary goal of both the Alpena City Council and the City's DDA.

The City in partnership with Alpena County, Alpena Township, the Alpena Area Chamber of Commerce, Target Alpena Development Corp. and private sector business interests have begun a process by which several independent economic development efforts will be coordinated, restructured and adequately funded to more effectively promote economic development of the greater Alpena area throughout the state, region, nation and the world.

VISION STATEMENT AND GOALS

The City of Alpena conducted an in-depth visioning session that involved extensive input from citizens and the city staff in 1998. The Alpena City Council used that information as well as insights from analyzing current and future trends, assumptions, opportunities, and potential threats that would influence the vitality of the community to envision a collective desired future. With examination of all the data, the Council established long-term directions and short-term goals in Major Impact Areas.

Committed to continuous improvement, the Alpena City Council and City staff conducted a planning session in September 2004 to revisit the vision and review the status of the goals to purposefully revise and update them (reviewed annually since 1988 and biennially since 1998). Specific intent was focused on the Major Impact Areas, which reflect key aspects of the community's daily life. Each Impact Area is cooperatively maintained or enhanced to achieve the quality of life desired for citizens, their children, grandchildren, and great-grandchildren.

The spirit of cooperation, collaboration, and commitment to community excellence remain a vital part of the continuous Visioning process in the City of Alpena.

The City of Alpena conducted an in-depth visioning session that involved extensive input from citizens and the city staff in 1998. The Alpena City Council used that information as well as insights from analyzing current and future trends, assumptions, opportunities, and potential threats that would influence the vitality of the community to envision a collective desired future. With examination of all the data, the Council established long-term directions and short-term goals in Major Impact Areas.

Committed to continuous improvement, the Alpena City Council and City staff conducted a planning session in September 2004 to revisit the vision and review the status of the goals to purposefully revise and update them (reviewed annually since 1988 and biennially since 1998). Specific intent was focused on the Major Impact Areas, which reflect key aspects of the community's daily life. Each Impact Area is cooperatively maintained or enhanced to achieve the quality of life desired for citizens, their children, grandchildren, and great-grandchildren.

The spirit of cooperation, collaboration, and commitment to community excellence remain a vital part of the continuous Visioning process in the City of Alpena.

VISION

Working together, the community of Alpena will become a premier choice as a place to live, work, and vacation. Residents will recognize the community's continued dedication to all areas affecting the quality of life.

The community will continue to be committed to excellence in maintaining its "TREASURES":

- ◆ a friendly town with a safe environment;
 - ◆ good place to raise a family;
 - ◆ enjoyment of natural resources;
 - ◆ preservation of traditions;
- ◆ recreation and cultural experiences;
 - ◆ employment opportunities.



The following is a description of current allocated efforts and resources in each of the Major Impact Areas as well as priority goals and corresponding objectives collaboratively generated by the Alpena City Council and the Alpena City staff, with input from the Chamber of Commerce, Convention and Visitors Bureau, Downtown Development Authority, other community organizations, and citizens.

I. HOUSING



The City's Comprehensive Plan will be updated in 2005-2006 and will respond to the changing population of Alpena, including the increasing percentage of senior citizens. The City Council and City staff carefully reviewed and took into consideration the current Comprehensive Plan to optimize and align City efforts and resources.

The Comprehensive Plan includes areas designated for "Planned Development" which would permit mixed-use developments including a variety of housing types. These could be developed individually or intermixed to meet the market demands of the community.

The following housing goals have a concentrated focus on continuous improvements in neighborhoods and the housing stock in the City, aligned with the Comprehensive Plan:

A. *Preserve and enhance existing housing and neighborhood character.*

1. Continue promotion of existing tax incentives and monetary awards for residential rehabilitation.
 - a. Promote the Neighborhood Enterprise Zone program in the downtown area and investigate expansion of the NEZ program to other City neighborhoods.
 - b. Expand the existing Community Pride program to include commercial office upgrades, historic renovations, and street-side landscaping projects.
 - c. Explore incentives for people to move to downtown Alpena. Work in partnership with the DDA.
2. Continue to enforce property and maintenance codes.
3. Amend property maintenance ordinance to identify criteria for height of grass and/or frequency of cutting.
4. Explore the possibility of expanding Citywide Pride Program to citizens as a way to recognize outstanding citizens and/or citizen activities.
5. Continue to improve the quality of residential rental units.
 - a. Continue ongoing monitoring and evaluation of the rental registration and mandatory rental inspection programs.
 - b. Continue and expand the Michigan State Housing Development Authority (MSHDA) Rental Rehabilitation grant program as a way to assist landlords to upgrade their rental units.
6. Support continuation of the historic study committee to determine the feasibility of:
 - a. Creating an historic district(s) and/or designating single-site historic landmarks.
 - b. Establish a set of historical architecture guidelines to promote quality and historically accurate restorations, in cooperation with the DDA. The guidelines will be developed by the City and the Historic District Study Committee in conjunction with the establishment of the City's first historic district.
 - c. Encourage and assist property owners to apply for state historic designation for single sites, and develop a local historic marker program.
7. Meet with the County to discuss possible expansion of the Alpena County Home Improvement Program and/or see what the County feels is the future of the program.
8. Investigate feasibility of the Neighborhood Preservation Program through the Michigan State Housing Development Authority.

B. *Diversify the housing stock in the City.*

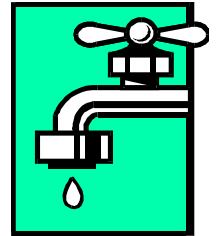
1. Explore senior housing opportunities and demands in future years.

2. Encourage appropriate development of riverfront areas for quality housing.
3. Encourage further development of downtown housing.
4. Encourage more multiple-family residential developments.

II. INFRASTRUCTURE

Water, Sewer, and Storm Sewer Services

Providing residents with good, clean water and sanitary services at reasonable rates is a priority of the City. The water filtration facility has been in consistent compliance with all requirements of the Safe Drinking Water Act and State of Michigan Drinking Water Regulations. Utility management conducted a water and sewer rate study in 2004. The survey showed that the rates charged by Alpena were the second lowest out of the thirty-six utilities that were polled.



Efforts to improve the aesthetics of the Water Recycling Plant have been very successful. An air collection and scrubbing system was installed to control the migration of offensive odors to the marina and downtown areas. The odor treatment units have been enclosed within a building, and a screening wall has been constructed to provide a visual barrier between the plant and the floating docks at the marina. Completion of the utility administrative office has enhanced the appearance of the plant and improved customer service by providing a drive-through window and night depository box. The City received recognition for these improvements from the Michigan Municipal League. In September 2002, the plant received an award for Superior Innovation for its submittal "Making the Alpena Water Recycling Plant a Good Neighbor." In 2004, the Alpena Water Recycling Plant won a USEPA Region V First Place Award for Excellence in the Operation and Maintenance of a Medium Secondary Water Pollution Control Facility. Additionally in 2004, the Alpena Water/Wastewater Utility won the National AWWA Wendell R. LaDue Safety Award for Utilities with a staff of 10 to 100 employees.

Negotiations with Alpena Township are continuing, and an emphasis has been placed on extension of the rate-setting formula and master agreement for the best interest of both the City and Township.

The following goals are focused on continuous improvement:

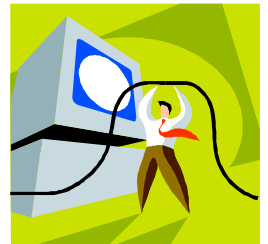
- A. *Continue to provide water, sewer, and other infrastructure that meets all needs.*
 1. Inventory and computer map all utility infrastructure presently in place.
 2. Investigate the impact if the City of Alpena were to provide water to other townships on an "as requested" basis.
 3. Explore all opportunities to secure a state revolving fund loan for wastewater treatment facility upgrades.
 4. Support a Thunder Bay River regional watershed plan.
 - a. Partner with townships and/or other organizations to explore options including grant opportunities to improve water quality and upgrade failing septic systems.
 5. Develop best management practices plan and public information /education program regarding storm water management.
 - a. Solicit volunteers and work with the Thunder Bay River Watershed Council to stencil/paint "Dump No Waste - Drains to River" on pavement.



6. Promote consistent storm water and drainage management practices among all affected units of government.
7. Evaluate existing sewer and storm water capacity capabilities.
8. Implement the 10-point plan regarding sewer backups and flooding.
9. Investigate the advisability of a contract with Alpena Combat Readiness Training Center (ACRTC) for contractual operation of its on-base water and sewer systems.
10. Implement a mercury minimization public education effort for wastewater discharges.
 - a. Explore Clean Michigan grant opportunities for mercury minimization.
11. Continue a public education effort on drinking water protection.
12. Consider a revenue bond issue, participation in the state's Clean Water Bonding Program, or rate increases to fund sewer system improvements.
 - a. Consider hiring an engineering firm to prepare an application and needs study to apply for state revolving fund loan program.
13. Encourage or require underground utilities (electric, telephone, cable) for all new development and all reconstruction.
14. Begin long-term investigation regarding the eventual need to build new water and water recycling plants.

Technology Services

The City of Alpena has the opportunity to influence and accelerate the development of “wired city” infrastructure. In the near future there will be a convergence of services such as telephone, television, and internet, which will become available to “wired” communities. The City’s goal is to find and reduce redundancies in public and private sector investment by creating an environment that will allow everyone to share resources and move the entire community toward a connected future.



The goal of the City is to create the groundwork to develop an infrastructure that will create partnerships and reduce redundancies to encourage the quicker adoption of new technology. By developing an underground conduit system as part of other construction projects at the City, there is the ability to open up new possibilities for public services and private sector development which will enhance the community, reduce expenses to the City, and develop new revenue streams.

In order to begin this project, the immediate goals would be to discuss and review the possible future needs of data communications connections in all construction projects. Any projects with a likely Return on Investment should be pursued; and projects that may have a private sector use should be evaluated to determine if the project should include, at a minimum, conduit for future development. The incremental nature of this deployment of data communications infrastructure will keep cost low and will in time create a network of connections that will fill the demands of the future.

- B. *Provide avenues for expanding technology. Make Alpena a wired community.*

Transportation Services

City Council has taken an aggressive, proactive approach to improving the overall condition of streets within the municipal system. Funds are committed annually to perform appropriate upgrades to street segments. This could be from chip sealing to total street reconstruction. City Council is also actively pursuing all grant opportunities to maximize local funding.

City Council has taken the lead in providing non-motorized transportation to the community with plans to interlink all parks, recreation areas, and neighborhoods. The City has actively participated in intergovernmental activities to bolster and improve transportation both within the City and regionally.

The City continues to work with Dial-A-Ride, Thunder Bay Transportation, and Regional Medical Ride to provide transportation services in the most cost-effective, customer-oriented manner.

Recently, there has been a significant amount of activity in the transportation arena. The focused goals to continue the improvement of the transportation system of Alpena are:

C. *Promote a transportation system that meets the full range of transit needs of the community, now and into the future.*

1. Support the efforts of MDOT for more passing lanes and 4-lane segments on US-23 and M-32.
2. Complete the pedestrian/Bi-Path linkage to all City parks and waterfront.
 - a. Determine missing segments and associated costs such as north side, State Avenue, Bagley Street.
 - b. Determine funding sources for Bi-Path expansion and upgrades.
3. Improve the condition of the City streets.
 - a. Determine costs associated with improving City streets.
 - b. Explore options for the expansion of curb and gutter program.
4. Support implementation of the routing plan for a bypass from US-23 south to US-23 north.
5. Investigate feasibility of summertime fixed route specialized public transportation service (trolley) for festivals and special events.
6. Complete a City-wide traffic flow and street plan.
7. Develop street lighting/pedestrian lighting plans for City streets and various neighborhoods.
8. Investigate the advisability of Dial-A-Ride incorporation into a regional transportation authority.
9. Support the efforts of Alpena County to improve flight service and economic development at the Alpena County Regional Airport.
10. Support the Michigan Department of Transportation designation of US-23 as a Recreational Heritage Route.
 - a. The City should be an integral partner with strong representation on the Alpena County Heritage Route Committee.



- b. The City should work with the Alpena County Heritage Route committee to:
 - Identify those elements within the City of Alpena which are recreation designation points.
 - Amend the Corridor Management Plan to include those items identified.
 - Seek grant funding through the Heritage Route segment of the Enhancement Grant Program to facilitate improvements as needed at the above referenced locations.
11. Support efforts of the Alpena Snowmobile Association and local governmental units to develop linkages between existing snowmobile trails, and to evaluate the potential for a trail(s) into the City.

City-Owned Facilities

- D. *Develop a long-term plan for City-owned facilities.*

III. RECREATION/CULTURAL OPPORTUNITIES

The Alpena Area Recreation Commission has been established and is now operational.

A new master plan for Mich-e-ke-wis Park and Starlite Beach has been completed.

McRae Park is in the process of being expanded through the donation of property from the Alpena Little League Association and NEMROC.

The City continues to encourage further use of its riverfront by supporting events such as Riverfest, Maritime Fest, etc.



The City Bi-Path system continues to be developed. The City continues to apply for funding to complete development of and to upgrade facilities at City parks along both the Thunder Bay River and the Lake Huron shoreline. As these are completed, an integrated system of waterfront parks and pathways will link a majority of the City.

City-owned Bay View Park has been developed to maximize availability and use of recreational facilities. Installation of pedestrian lighting and walkways has been completed.

Considerable effort is currently being invested in this area, and the following goals will continue the work in recreation/cultural opportunities:

- A. *Expand in-City winter recreation opportunities.*
- B. *Improve Bi-Path for year-around use.*
 1. Continue to pursue Railroad Abandonment/Rails to Trails within the City limits and explore potential uses of abandoned track.
 2. Review current regulations governing Rails to Trails.
 3. Work with established advocacy groups regarding potential and uses.
 4. Continue and complete the Heritage Riverwalk along both banks of the Thunder Bay River from the mouth of the river to the Ninth Avenue Bridge within the Cool Cities Neighborhood.

5. Support the boardwalk link between Second and Ninth Avenues on the north side of the river in conjunction with the redevelopment of the former Fletcher Paper Mill site.
- C. *Implement Phase Three of River plan. (Roadside Park/ Island Park/ Wildlife “Sanctuary”)*
 1. Support the implementation of the proposed Environmental Interpretive Center and boardwalk/fishing pier plans
- D. *Support the Thunder Bay National Marine Sanctuary and Underwater Preserve.*
- E. *Support the Thunder Bay Recreation Complex.*
 1. Continue to have City representation on the Alpena Area Recreation Commission.
- F. *Continue support for development and expansion of parks.*
 1. Actively pursue acquisition opportunities for waterfront properties considering both budgetary issues and private development opportunities and/or benefit to the City.
 2. Continue to budget for waterfront park expansion, improvement, maintenance, and beautification.
 3. Maintain grounds, playground equipment, and other amenities for the public enjoyment.
 4. Continue policy of opening views of waterfront to emphasize Alpena as a water-based community where advisable and practical.
 5. Irrigate all City parks.
 6. Acquire residences on State Avenue to create an open area from State Avenue to the Band Shell.
 7. Make the City of Alpena Marina area a showcase for the community and Northeast Michigan.
 8. Replace existing playground equipment with modern, up-to-date play structures with Starlite Beach and Mich-e-ke-wis Park being the first priorities.
 9. Begin the systematic implementation of the Starlite Beach/Mich-e-ke-wis Park Master Plan.
 10. Develop lighting plans and themes for City parks.
 11. Complete relocation of the Oxbow Babe Ruth baseball field to the expanded McRae Park.



IV. ENVIRONMENTAL ISSUES

The City continues its commitment to comply with all federal and state environmental standards. The Alpena Water Recycling Plant has been in substantial compliance with all discharge limitations, and the Water Filtration Plant has also been in consistent compliance with all regulatory requirements.

Alpena and Montmorency counties, with active participation from the City of Alpena, local townships, and the Northeast Michigan Council of Governments (NEMCOG) have jointly created the Northeast Michigan Recycling Alliance Authority (NEMRAA). NEMRAA went into full-time operation in the summer of 2003 and is currently operating from the old Alpena transfer station facility on M-32 West.

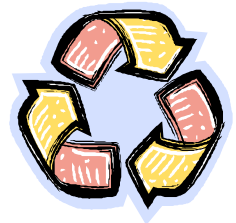
NEMRAA has acquired over \$100,000 in recycling equipment, is employing a part-time facility manager, and is keeping the recycling facility open annually. NEMRAA also partners with MSU Extension in conducting a Clean Sweep program and household hazardous waste drop-off.

Long-term funding is currently the most serious issue facing NEMRAA. Currently, a user-based fee system is being charged for all materials brought to the facility. NEMRAA is working with counties, all local units of government, and the Alpena-Montmorency-Oscoda Landfill Authority in addressing funding issues.

The following goals assist in the forward motion of environmental issues:

A. *Continue to improve air and water quality.*

1. Continue implementation and expansion of recycling.
2. Continue participation in ongoing air and water quality issues based on defined, acceptable standards.
3. Continue to investigate solid-waste options including curbside recycling and franchising/contracting of trash pickup.
4. Continue a proactive tree planting program.
5. Control and reduce presence of odors in the City.
6. Pursue grants to dredge CKD that has entered the bay.
7. Continue to promote citywide implementation of the City's Brownfield Redevelopment Plan.
8. Re-establish elm trees in the City of Alpena by using the new disease-resistant hybrid.
9. Investigate ways to eliminate seasonal, organic beach deposit.
 - a. Work with Earth Tech and the private sector regarding beach cleanup.
10. Tree City USA
 - a. The City of Alpena, through the Department of Public Works, will annually apply to the National Arbor Day Society for designation as a Tree City USA. In order to achieve designation, the City will maintain an active tree planting and maintenance program. The City will also designate one day per year as Arbor Day within the City of Alpena and encourage public participation in Arbor Day activities.



V. ECONOMIC DEVELOPMENT and TOURISM

Economic Development and Tourism



The City works with private companies and other organizations to facilitate infrastructure improvements to support and spur economic development within the City. Examples of recently completed projects include Commerce Industrial Park and improvements to the North Industrial Park. Funding from the Michigan Economic Development Corporation played a significant role in both projects. Target Alpena has been charged with the responsibility of selling the lots it owns in the new Commerce Industrial Park to create jobs for the community. To assist Target Alpena, the City has designated Commerce Industrial Park as a Renaissance Zone, which provides significant tax benefits to purchasers/developers.

City staff continues working with Alpena Marc LLC on the reuse of the former Fletcher Paper Company Plant site. The Michigan Economic Development Corporation has awarded the City a \$1.6 million CDBG infrastructure grant to support the redevelopment of this property. Additionally, the City has transferred ownership of Oxbow Park, a former City landfill site and a designated Renaissance Zone, to Walden Properties, which is in the process of redeveloping this Brownfield into a mixed-use commercial/residential community called Oxbow Village. The Michigan Economic Development Corporation has committed \$1.4 million toward needed infrastructure improvements required for the Oxbow Village project.

The City continues to work closely with local businesses on a wide range of issues including zoning, building codes, tax abatements, etc., to ensure that local economic development can take place in a timely manner without infringing on our residential neighborhoods.

The City will partner with the DDA to implement the recently completed market analysis/strategic plan of the downtown and adjacent commercial areas on Chisholm Street and North Second Avenue. The market analysis provides guidance to the City and the Downtown Development Authority in the redevelopment of our older commercial areas.

The City and the State of Michigan designated the former National Guard Armory Building site in Alpena as a Renaissance Zone. The City continues to support the State of Michigan in its efforts to sell this important property for future redevelopment. The City is presently working with a private developer on the redevelopment of this property for both affordable and market-rate housing.

The City recently purchased approximately 100 acres of land on U.S. 23 North for various purposes including economic development, public uses, as well as for road improvements. Alpena Village purchased 10 acres with an option for an additional 20 acres in 2002 for the development of a Senior Continuum of Care Housing Community. Since that time Alpena Village has entered into negotiations with Alpena Community College for the purchase of 30-40 acres along Wilson Street for this development. The City continues to promote the site and evaluate other development opportunities for this area including a possible joint marketing effort with ACC.

In 2004, the City of Alpena was designated a *Cool City* under the State of Michigan's "Cool Cities" Initiative. The City, through the Cool Cities Advisory Committee and City staff, will actively work with the Alpena Downtown Development Authority, other governmental and community entities, and the citizens to maintain, promote, and enhance our *Cool Cities* status.



Completion of the Heritage Riverwalk pilot project will remain a specific priority of our local *Cool Cities* initiative. Partnership with the Thunder Bay National Marine Sanctuary and Underwater Preserve in achieving designation of a Preserve America community will be another specific local goal. The City, with its numerous partners, will continue to promote and develop projects and programs that enhance Alpena as a Cool Cities community.

The City is continuing to upgrade its waterfront parks, most notably the marina complex and the Starlite and Mich-e-ke-wis Park areas to provide additional amenities and infrastructure for special events and visitors. Improvements to the City's award winning Bi-Path system continue to be a high priority.

A renewed emphasis on tourism advertising and marketing will be a priority.

To continue growth in economic development and tourism, the City will focus on the following:

A. *Promote diversified economic base.*

1. Continue to support Target Alpena in its economic development efforts, especially related to developing Commerce Industrial Park.
2. Continue to support the Convention and Visitors Bureau efforts to increase tourism, including allocation of additional resources for tourism marketing and advertising by the private sector and governmental units.
 - a. Investigate a public/private program to increase funding for tourism and community promotion; as an example, for each new dollar raised by the private sector, governmental units would consider a match.
3. Continue to support community events such as Brown Trout, Art on the Bay, Ramblin' Rods Car Show, Great Lakes Lighthouse Festival, Sidewalk Sales, Riverfest, Maritime Fest, etc.
4. Continue expansion of infrastructure and services to support future industrial development.
5. Expand efforts for recruitment and expansion of family-sustaining jobs - including allocation of additional resources for business recruitment, marketing, and advertising.
6. Support Downtown Development Authority efforts in development of new businesses downtown.
7. Expand efforts to fill Commerce Industrial Park.
8. Pursue redevelopment of obsolete commercial properties throughout the City.
9. Work with Lafarge Corporation on Commerce Drive and North Second Avenue for new industrial development corridors.
10. Reevaluate criteria for granting Act 198 Industrial Tax Abatements.
11. Promote the Renaissance Zones.
12. Acquire property for new development.
13. Capitalize on the Cool Cities designation.
14. Formulate an economic development partnership with Alpena County.
 - a. Improve marketing of our community.
 - b. Provide assistance to help expand existing businesses.



Destination Alpena

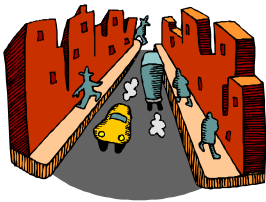
Community groups such as the Convention and Visitors Bureau, Target Alpena, and the Chamber of Commerce continue to explore possible “magnet facilities” or final destination attractions which may be encouraged to develop in the city. The intent is to identify potential destination attractions involving both public and private financial participation. It is believed that tourism must have a more important economic development roll in Alpena’s overall economic base.

To continue the work in progress with “Destination Alpena,” the City will:

B. *Work toward a destination facility.*

1. Cooperate with private sector to establish a waterfront hotel or resort complex.
2. Support and encourage an overnight stop for a “Great Lakes Cruiseline.”
3. Continue to support those existing services that are attracting people to the area such as the National Marine Sanctuary and Underwater Preserve, local festivals, Alpena General Hospital, senior housing, World Center for Concrete Technology, Alpena Community College, Northern Lights Arena, etc.

VI. CENTRAL BUSINESS DISTRICT



The Downtown Development Authority continues its efforts through the tenets of the “Main Street” program, which focuses on the historic nature of the downtown. Many of the goals are implemented through the “Main Street” four-committee structure, supported by City staff. The DDA, supported by the City, will also define its program of work through the 2003 Market Analysis and Strategic Plan.

Many downtown buildings have been renovated consistent with the historic nature of the downtown, assisted in part, by the recently established DDA Façade Grant Program. The City and the DDA continue to pursue methods to encourage and support residential development on the second and third floors. A Neighborhood Enterprise Zone has been established to provide incentive for the property owner to redevelop a property into residences.

The Downtown Development Authority, with support from the City, completed the 2003 Market Analysis and Strategic Plan for Downtown Alpena, which provides current, relevant data to help the DDA and the City determine a program of work to include way-finding signage, business recruitment, and needed capital improvements. The City supports the DDA effort to implement the findings of this plan, including the new Façade Grant Program of the DDA.

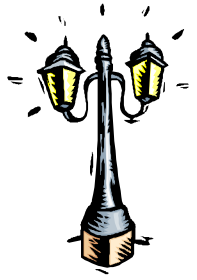
The City continues to support the efforts of Walden Properties and the Downtown Development Authority to facilitate the redevelopment of the vacant land at the corner of Third Avenue and River Street. The City and the DDA also received a grant to improve the streetscape along the Washington Avenue entrance into downtown.

The City continues to work with the landscaping committee of the DDA to improve the overall appearance of the downtown district. The City continues to support the Christmas decorations in the downtown area, and works with the Downtown Development Authority and downtown businesses to improve snow removal in the downtown area. Additionally, the banner program has been expanded, and includes the impact zones adjacent to the specific downtown district.

To continue to maximize efforts invested in the central business district, the City will:

A. *Continue to support revitalization efforts.*

1. Support Downtown Development Authority initiatives, such as:

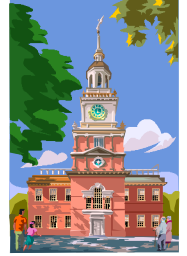


- a. Historic restoration and preservation.
 - b. Historical pedestrian lighting.
 - c. Continue involvement with new “Main Street” committees.
 - d. Encourage attraction of young citizens and families to the downtown area.
2. Continue to expand efforts to make funds available for the new DDA Façade Improvement Grant program for property owners to renovate storefronts to preserve historic-like character.
 3. Encourage residential development on the second and third floors.
 - a. Work with the DDA to market and implement the Neighborhood Enterprise Zone, an incentive to remodel and improve upper-level apartments. Grant sources and other incentives will also be pursued.
 - b. Identify locations for year-around parking for residents.
 - c. Encourage development of vacant property.
 4. Continue development from Chisholm Street Corridor to the riverfront.
 5. Support efforts for business recruitment.
 - a. Provide inventory of vacant properties through the Downtown Development Authority and City of Alpena websites.
 6. Extend downtown-type amenities on Chisholm Street to George Washington Bridge.
 7. Continue to develop riverwalk.
 8. Investigate feasibility and cost of a parking structure.
 9. Support and encourage retention of existing services such as the Senior Citizens Center, Fish & Wildlife Services, Coast Guard, IRS, etc.
 10. Explore redevelopment of existing parking lots.
 11. Support marketing and recruiting partnerships for small businesses.
 12. Work with Alpena Marc LLC on the redevelopment of the Harborside Mall block.
 13. Determine if the Obsolete Property Act should be used in the downtown and adjacent commercial areas to spur development and business recruitment.
 14. Support redevelopment of the National Guard Armory site.
 15. Determine if more public restrooms are needed in the downtown.

VII. INTERGOVERNMENTAL RELATIONS

The City continues to reach out to other governmental units to develop greater cooperation.

The Alpena Area Recreation Commission is operational. A recycling authority has been formed and is operational. Intergovernmental meetings are being held through the Intergovernmental Council every four months. Subcommittees have been formed on various issues and are meeting as required and reporting back to the Intergovernmental Council. The Intergovernmental Council's responsibilities include communications, roads, drainage, air and water quality, public safety, and economic development.



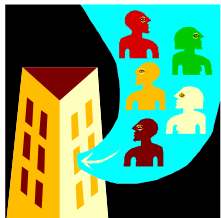
The Northeast Michigan Recycling Authority Alliance involving both Alpena and Montmorency Counties has been formed and has begun limited operations. A household hazardous waste collection program is operational and the Authority is looking at the feasibility of continuing a transfer station operation and is trying to determine a long-term funding source to finance an expanded recycling program in both Alpena and Montmorency Counties.

To focus on the continuous improvement of intergovernmental relations, the City will:

- A. *Improve government services through intergovernmental relations.*
 - 1. Continue communications with governing bodies regarding agenda and items affecting other jurisdictions.
 - 2. Work with the Intergovernmental Roads Committee to achieve Bi-Path improvements along perimeter roads.
 - a. Work together to address the Bagley Street Bi-Path issue.
 - 3. Work with Alpena County to keep the jail facility in the City limits.
 - 4. Maintain a long-term ambulance agreement with Alpena County.
 - 5. Negotiate a long-term water and sewer rate agreement with Alpena Township.
 - 6. Work toward a permanent solution to animal control and impoundment.
 - 7. Accelerate dialog regarding land use regulations and access management with Alpena Township and County. Continue to promote that dialog and investigate those tools that are provided by the state regarding land use regulations and access management.

VIII. CITY OPERATIONS

City Departments and Staffing



The City's most important resource is its employees. These are the people who provide the services that our residents need and deserve. To accomplish its mission, the City places significant emphasis on training and retaining its employees. Each Department Head is required to annually prepare a training plan for their department employees. Their training plans focus on skills development, customer service training, technology training, etc.

The City has an award-winning web page, www.alpena.mi.us. All departments have web pages, and they are maintained in an up-to-date manner. The City will continue to upgrade and provide additional resources through its home page and the Internet.

All City departments utilize surveys to gauge the satisfaction of residents for City services. The surveys assist the staff and City Council in improving services.

To continue to ensure quality within City departments and staffing, the City will:

- A. *Provide staffing levels commensurate with services provided.*
 - 1. Continue to provide education programs for staff, council members, and members of boards.
 - 2. Continue the wellness program for current City employees and investigate a program for retirees.

Fiscal Responsibility

The City has kept adequate fund balance reserves and is in excellent financial condition per the annual audit process. Alpena received the Certificate of Financial Achievement Award for excellence in governmental accounting and financial reporting for nine consecutive years.

A budget stabilization “rainy day” fund and a Department of Public Works Construction Fund have been established. A Building Authority has been established to fund special projects.

- B. *To ensure continued excellence in fiscal responsibility, the City will continue to inform the general public on the financial status of the City.*
 - 1. Continue to use the standards of the Certificate of Financial Achievement Award as best practices for the City.
 - 2. Continue to maintain a general fund balanced budget.
 - 3. Make annual contributions to the rainy day fund as budget allows.
 - 4. Continue to fund the sewer backup/self-insured account and build up reserves.
 - 5. Investigate the feasibility of paying property taxes and other bills electronically.
 - 6. Investigate accepting debit cards at the Clerk’s office and at Earth Tech..
 - 7. Investigate changes to the purchasing policy to permit the greater use of electronic commerce.
 - 8. Establish a property purchase fund or a designated fund balance as the budget allows.

IX. COMMUNICATIONS

Continuous efforts have been invested in improving the communications between the City and its “customers” (citizens). The City provides a form in its newsletter to request information or to express a concern to the City Manager’s office. The City also makes the e-mail address of City employees available for electronic requests for information and services.



Customer satisfaction surveys are being implemented for citizens involving the sidewalk program, City Marina, zoning process, water and sewer services, cemetery, snowplowing, maintenance of City parks, and brush and bagged leaf pickup. Results from these surveys help improve operations. Surveys regarding fire service, police service, and ambulance service are also being conducted. The City Clerk/Treasurer/Finance Director’s office will also conduct a customer satisfaction survey in the future.

A. *The City will continue communications between the City and its customers.*

1. Maintain an open atmosphere at all City facilities that encourages citizen input.
2. Continue to communicate with the public so they understand the issues that are before City Council.
3. Continue City representation on community boards, advisory groups, and intergovernmental groups to actively demonstrate City involvement in community issues.
4. Investigate options of Internet subscription to City news releases, newsletters, etc.
5. Continue to provide information and expand the use of forms on the City of Alpena website.
6. Provide website links or information regarding the history of our City. This may include information on historic buildings.
7. Make assessment record data available on the City web site.

X. **PUBLIC SAFETY**

Police Services



The City's support of DARE and HUNT programs continues. The Police Department has expanded the role of the DARE officer to include working as an elementary school liaison officer. The City supports the efforts of the Huron Undercover Narcotics Team (HUNT). The City partners with the school system to provide liaison officers in the high school and city elementary schools.

The Police Department has a K-9 unit for the community. The K-9 is a cross-trained unit to include narcotics detection along with tracking, building searches, area

searches, etc

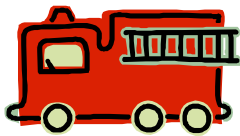
To continue the concentrated effort in drug education and enforcement, the City will:

A. *Continue to support community-based efforts in drug education, prevention, and enforcement.*

1. Continue to support the DARE program.
 - a. Budget a position with the Police Department.
 - b. Designate a Council liaison to the DARE board.
 - c. Designate a City Police Department representative to the DARE board.
 - d. Continue joint purchasing with the City/County DARE programs.
 - e. Continue public service relationship through the DARE officer.
2. Continue the School Liaison Officer Program.
 - a. Pursue grant funding for School Liaison positions.

- b. Continue to financially partner with schools to provide school liaison officers to include local matches for prospective grants.
 - c. Assign officers to Alpena High School and City elementary schools.
 - d. Assign appropriate City representation to the School Liaison Partnership Advisory Team.
 - 3. Continue to support the HUNT Team.
 - a. Assign Council liaison to HUNT Advisory Board.
 - b. Assign Police Department representative to HUNT Advisory Board.
- B. *Continue to provide a high quality Police Department*
 - 1. Investigate the staffing needs to ensure the department has the personnel resources necessary to meet the Council's vision of a "friendly town with a safe environment" and "good place to raise a family."
 - 2. Initiate discussions with Alpena Township regarding contractual police protection.

Fire/Ambulance Services



The Fire Department is cooperating with the state and federal governments by serving as a member of the regional response team for weapons of mass destruction incidents. Such designation provides the department with specialized equipment and training to respond to incidents on a local and regional basis.

- C. *Continue to provide a high quality Fire Department.*
 - 1. Investigate the staffing needs to ensure the department has the personnel resources necessary to meet the Council's vision of a "friendly town with a safe environment" and "good place to raise a family."
 - 2. Initiate discussions with Alpena Township regarding a Fire District.
 - 3. Continue leadership role in the Regional Response Team for Weapons of Mass Destruction for Northeast Michigan.

FINANCIAL INFORMATION

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the government are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognized that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgeting Controls. In addition, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the general fund, special revenue funds and debt service funds are included in the annual appropriated budget. Project-length financial plans are adopted for the capital projects funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established by function within an individual fund.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

Debt Administration. At June 30, 2005, the City had five debt issues outstanding. These issues included \$1,520,000 of general obligation bonds, \$735,000 of sanitary sewage bonds which are contractual obligations with Alpena County, \$2,160,000 in Building Authority Bonds, \$3,400,000 of water supply and sewage disposal system revenue bonds, and one bank loan for \$338,362. Under the current City Charter, the City general obligation bonded debt issuances are subject to a legal limitation based on eight percent of the City's assessed value of real and personal property. As of June 30, 2005, the City's total obligation debt of \$8,166,477 was well below the legal limit of \$20,171,161.

Cash Management. In accordance with the cash management policy of the City, cash temporarily idle during the year was invested in those investments authorized by law and included certificates of deposit, demand savings accounts and securities sold by the United States government or its agencies and State approved municipal trust funds. The City invests all funds' cash, with maturities planned to coincide with cash needs utilizing the pooled cash concept whenever possible.

The Pension Trust Fund's portfolio also includes corporate bonds and stocks. The Pension Trust Fund achieved a yield rate of 2.60% for the same period.

Risk Management. For the year ended June 30, 2005, the City participated with St. Paul Property and Liability Insurance with Arthur J. Gallagher & Company of Michigan serving as our representative, for liability and property insurance coverages. The City's liability coverage amount remained at \$10,000,000, the same as the prior fiscal year.

The City's workers' compensation insurance is provided through the Michigan Municipal Worker's Compensation Fund, operated by the Michigan Municipal League.

The City also has a \$1,000,000 liability insurance policy with Great American Insurance Company covering third-party liability and the costs of taking corrective action resulting from releases of pollutants from storage tank systems at the City Marina.

OTHER INFORMATION

Awards. The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Alpena for its comprehensive annual financial report for the fiscal year ended June 30, 2004. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. The report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Alpena has received a Certificate of Achievement for the last eleven consecutive years (fiscal years ended June 30, 1994 through 2004). We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA.

Acknowledgments. Special recognition must be extended to Julie Krajniak, Deputy Clerk/Treasurer/Finance Director, who assisted with the development of the Comprehensive Annual Financial Report (CAFR) and annual independent audit. We wish to express our appreciation to all members of the City's departments and the accounting and consulting firm of Straley, Ilsley & Lamp P.C. who also contributed to the preparation of the CAFR. We would also like to thank the members of the Alpena City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Alan L. Bakalarski

Alan L. Bakalarski
City Manager

Karen Hebert

Karen Hebert
City Clerk/Treasurer/Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Alpena,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



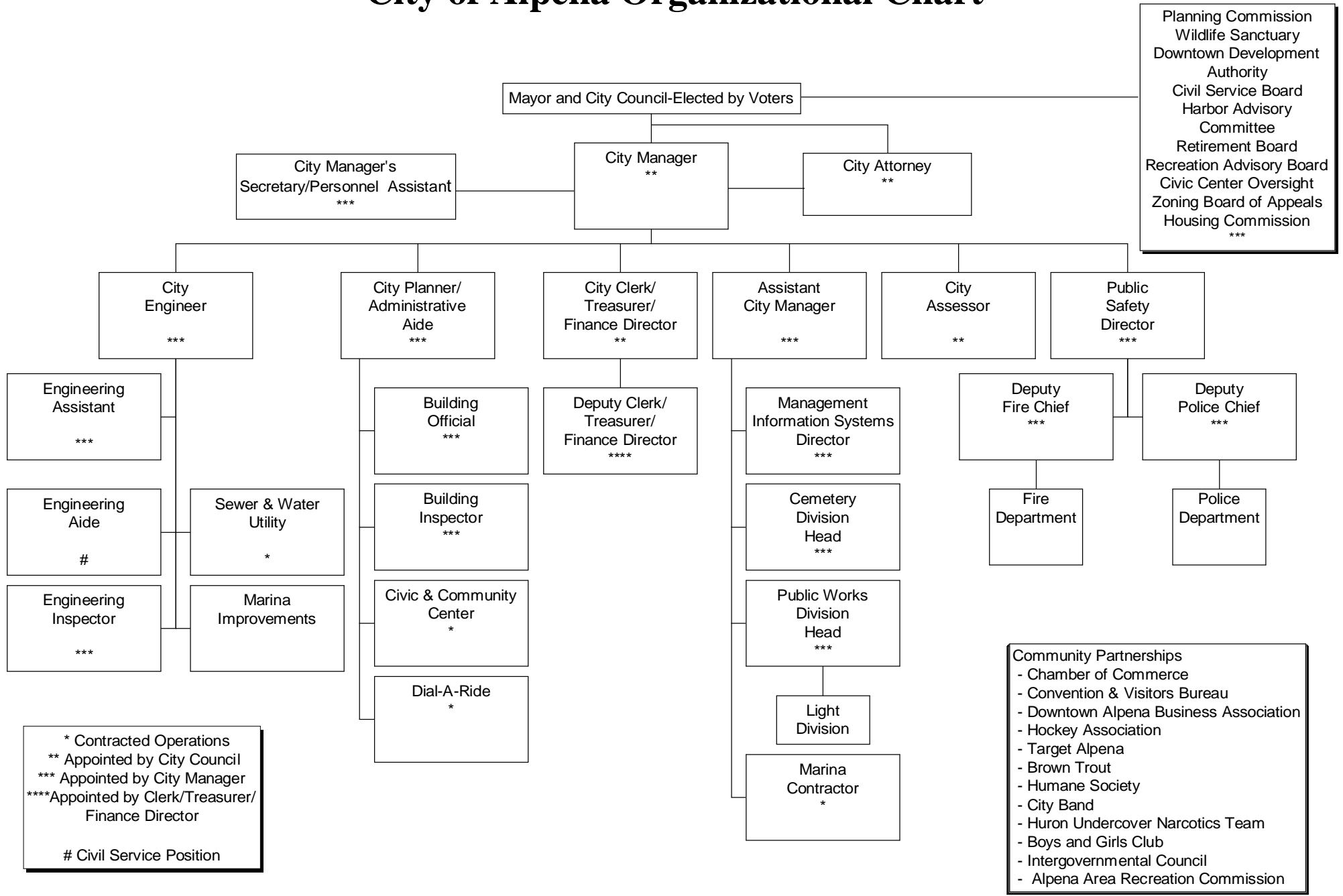
Nancy L. Ziehl

President

Jeffrey R. Egan

Executive Director

City of Alpena Organizational Chart



ADMINISTRATIVE STAFF

Council Appointees

City Manager	Alan L. Bakalarski
City Clerk/Treasurer/Finance Director	Karen Hebert
City Assessor	Jeffery A. Shea
City Attorney	Keith D. Wallace

City Manager Appointees

Assistant City Manager	Eric Cline
City Planner/Administrative Aide	Greg E. Sundin
Engineer	Richard O. Sullenger
Public Safety Director	Thad N. Taylor
Data Processing/Information Systems Director	Chad Repke

II. FINANCIAL SECTION

The Financial Section Contains:

- A. Independent Auditor's Report**
- B. Management Discussion and Analysis**
- C. Basic Financial Statements**
- D. Required Supplementary Information**
- E. Individual Fund Financial Statements and Schedules
(Supplementary Information)**

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
MARK L. SANDULA, C.P.A.
TERRENCE D. YULE, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of the City Council
City of Alpena, Michigan

We have audited the accompanying financial statements of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Alpena, Michigan as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Alpena, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Alpena, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison information, and pension system information (identified in the table of contents) are not a required part of the basic financial statements but are supplementary information required accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required by the supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Alpena, Michigan's basic financial statements. The introductory section, combining and individual non-major fund financial statements and statistical tables, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2005 on our consideration of the City of Alpena's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

Straley, Ilsley & Lamp P.C.

November 4, 2005

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Alpena, we offer readers of the City of Alpena's financial statements this narrative overview and analysis of the financial activities of the City of Alpena for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 3-25 of this report.

Financial Highlights

- The assets of the City of Alpena exceeded its liabilities at the close of the most recent fiscal year by \$53,254,926 (*net assets*). Of this amount, \$10,081,230 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City of Alpena's total net assets increased by \$1,162,998. This was the result of an increase in the net assets of governmental activities of \$912,879 along with an increase in the net assets of business-type activities of \$250,119.
- The City of Alpena provided services of \$10,921,297 in governmental activities and \$3,685,626 of business-type activities for expenses totaling \$14,606,923 during the year ended June 30, 2005.
- At the close of the fiscal year, the City of Alpena's governmental funds reported a combined ending fund balance of \$6,208,496 with \$1,662,969 reserved for specific purposes. This is an increase of \$146,021.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$2,058,127 or 24 percent of total general fund expenditures and operating transfers to other funds in comparison to \$2,019,285 at the close of the prior year, an increase of \$38,842.
- The City of Alpena Building Authority issued new debt of \$1,800,000 in building Authority Bonds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Alpena's basic financial statements. The City of Alpena's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Alpena's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Alpena's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Alpena is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Both of the government-wide financial statements distinguish functions of the City of Alpena that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Alpena include general government, public safety, public works, highways, streets and lights, and parks and recreation. The business-type activities of the City of Alpena include Water and Sewage and Dial-A-Ride Transportation (DART).

The government-wide financial statements include not only the City of Alpena itself (known as the *primary government*), but also two legally separate downtown development authorities and a legally separate economic development corporation, for which the City of Alpena is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The City of Alpena Building Authority, although also legally separate, functions for all practical purposes as a department of the City of Alpena, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 45-47 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Alpena, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Alpena can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Alpena maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street, Local Street, Budget Stabilization, and Building Authority Construction funds, all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The basic governmental fund financial statements can be found on pages 48-55 of this report.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Proprietary funds. The City of Alpena maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Alpena uses enterprise funds to account for its Water and Sewage funds and for its DART fund. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City of Alpena's various functions. The City of Alpena uses internal service funds to account for its fleet of vehicles, its management information systems, and its stores supplies. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewage funds and for the DART fund, all of which are considered to be major funds of the City of Alpena. Conversely, both internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 56-63 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Alpena's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 64-65 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 70-90.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Alpena's progress in funding its obligation to provide pension benefits to its employees. The general, major governmental and debt service funds' budget comparisons are also presented. Required supplementary information can be found on pages 91-94 of this report.

Combining and individual fund statements and schedules can be found on pages 95-134 of this report.

A Statistical Section with data reflecting information on financial trends, revenue capacity, debt capacity, demographic, and economic trends of the City can be found on pages 135-162 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Alpena, assets exceeded liabilities by \$53,254,926 at the close of the most recent fiscal year.

By far the largest portion of the City of Alpena's net assets \$40,756,018 (77 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that are still outstanding. The City of Alpena uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Alpena's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALPENA'S, Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 9,994,615	\$ 9,696,533	\$ 3,616,186	\$ 3,316,437	\$ 13,610,801	\$ 13,012,970
Capital assets	28,906,888	26,957,758	20,015,579	20,176,008	48,922,467	47,133,766
Total assets	38,901,503	36,654,291	23,631,765	23,492,445	62,533,268	60,146,736
Current liabilities	575,917	626,884	97,127	107,926	673,044	734,810
Noncurrent liabilities	5,205,298	3,819,998	3,400,000	3,500,000	8,605,298	7,319,998
Total liabilities	5,781,215	4,446,882	3,497,127	3,607,926	9,278,342	8,054,808
Net assets:						
Invested in capital assets, net of related debt	24,140,441	23,557,458	16,615,577	16,633,496	40,756,018	40,190,954
Restricted	1,662,969	1,400,491	754,709	803,951	2,417,678	2,204,442
Unrestricted	7,316,878	7,249,460	2,764,352	2,447,072	10,081,230	9,696,532
Total net assets	\$ 33,120,288	\$ 32,207,409	\$ 20,134,638	\$ 19,884,519	\$ 53,254,926	\$ 52,091,928

An additional portion of the City of Alpena's net assets \$2,417,678 (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$10,081,230 (19 percent) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Alpena is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$1,162,998 during the current year. This was the result of business-type activities ongoing revenues outstripping similar increases in ongoing expenses by \$250,119. Governmental activities, experienced an increase in net assets during the current fiscal year of \$912,879. While property tax revenue was up slightly, the increase in federal revenue, operating grants, capital grants and contributions is what attributed to the increase in revenue over expenses. An increase in the capital grants and contributions of public works along with moderate increases in operating grants and contributions of the governmental activities were the main attributes for the increase of revenue.

CITY OF ALPENA'S, Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 3,009,217	\$ 3,176,940	\$ 3,145,687	\$ 3,220,319	\$ 6,154,904	\$ 6,397,259
Operating grants and Contributions	2,232,836	1,824,269	615,225	785,113	2,848,061	2,609,382
Capital grants and Contributions	505,570	222,866	-	-	505,570	222,866
General revenues:						
Property taxes	4,427,731	4,238,067	122,433	117,017	4,550,164	4,355,084
Other	1,658,822	1,508,308	52,400	37,606	1,711,222	1,545,914
Transfers	-	-	-	-	-	-
Total revenues	11,834,176	10,970,450	3,935,745	4,160,055	15,769,921	15,130,505

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALPENA'S, Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Expenses:						
General government	2,854,309	2,823,709	-	-	2,854,309	2,823,709
Public safety	3,983,177	3,923,500	-	-	3,983,177	3,923,500
Public works	3,080,038	3,060,171	-	-	3,080,038	3,060,171
Parks and recreation	803,975	668,947	-	-	803,975	668,947
Interest on long-term debt	199,798	157,677	-	-	199,798	157,677
Water	-	-	1,219,311	1,265,219	1,219,311	1,265,219
Sewage	-	-	1,737,605	1,715,127	1,737,605	1,715,127
DART	-	-	728,710	736,014	728,710	736,014
Total expenses	10,921,297	10,634,004	3,685,626	3,716,360	14,606,923	14,350,364
Change in net assets	912,879	336,446	250,119	443,695	1,162,998	780,141
Net assets – beginning	32,207,409	31,870,963	19,884,519	19,440,824	52,091,928	51,311,787
Net assets – end	\$ 33,120,288	\$ 32,207,409	\$ 20,134,638	\$ 9,884,519	\$ 53,254,926	\$ 52,091,928

Governmental Activities. Overall, expenses increased only slightly due to a new general obligation debt bond increasing interest on our overall debt. The completion of capital projects and a conservative approach when filling vacant positions helped to keep the remaining expenses in check.

Cost of Services - Governmental Activities

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2005	2004	2005	2004	2005	2004
Functions/Programs:						
General government	\$ 2,854,309	\$ 2,823,709	\$ 1,026,481	\$ 1,752,452	\$ 1,827,828	\$ 1,071,257
Public safety	3,983,177	3,923,500	1,792,897	1,393,871	2,190,280	2,529,629
Public works	3,080,038	3,060,171	2,485,588	1,882,506	594,450	1,177,665
Parks and recreation	803,975	668,947	442,657	195,246	361,318	473,701
Interest on long-term debt	199,798	157,677	-	-	199,798	157,677
Total expenses	\$ 10,921,297	\$ 10,634,004	\$ 5,747,623	\$ 5,224,075	\$ 5,173,674	\$ 5,409,929

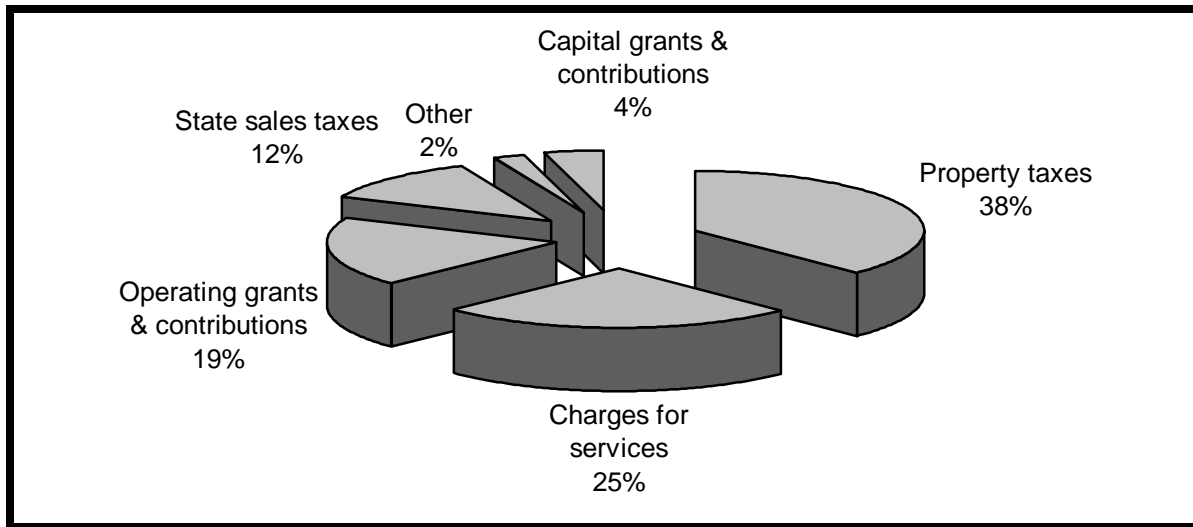
The total cost of services for General Government increased slightly due to an increase of interest on long-term debt pertaining to a new general obligation debt bond. There were also medial increases in the remaining functions/programs.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

The total cost of services increased for Public Safety, Public Works and Parks & Recreation due to the increases in the health insurance, property and liability insurance and wages. The Parks & Recreation program had a large rental fee cost due to newer equipment. The maintenance costs also increased due to more weed spraying and grounds maintenance.

Revenues by Source - Governmental Activities



REVENUES

Property taxes continue to be our largest source of revenue. We had an increase this fiscal year of \$189,664. The City can levy up to 17.5 mills within the limits of the Charter, however, due to the Headlee Amendment, and Proposal A, the City has been rolled back to 16.2316. The total taxable value on all real and personal property amounted to \$260,126,284 for the fiscal year beginning 2005-2006. The valuation represents an increase of \$7,978,026 from the preceding year. Total millage for the City of Alpena homestead property was 38.7682 and non-homestead property was 56.6046.

Charges for services was lower in 2005 due to a large asset sale and insurance reimbursable in 2004.

State revenue decreased again in 2004/2005 and is projected to stay at that level for 2005/2006.

With interest rates increasing, we are finally seeing investment income and rents increase.

The General Fund elected to use \$207,489 from the Budget Stabilization Fund.

Business-type Activities. All three Enterprise Funds are operated under contract by outside private contractors. The Water and Sewage utilities are operated by Earth Tech Operation Services. The operations agreement with Earth Tech was renewed on July 1, 2004, for a 4-year period per the terms of the contract. The new contract continues the current levels of maintenance on the system. Future increases for contractual fees with Earth Tech shall not exceed the annual proposal A rate of inflation increase or 3%, whichever is less.

Responsibility for the Dial-A-Ride Transportation (DART) system operations lies with Prell's Service. Operations are financed through Federal, State, and City operating grants and fare box revenues.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

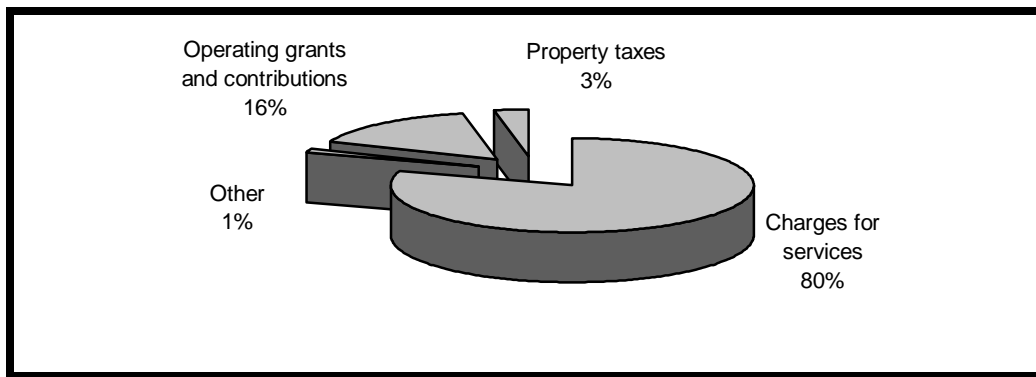
Cost of Services - Business-type activities

	Total Cost of Services		Program Revenues		Net Cost of Services	
	2005	2004	2005	2004	2005	2004
Functions/Programs:						
Water	\$ 1,219,311	\$ 1,265,219	\$ 1,649,451	\$ 1,390,283	\$ (430,140)	\$ (125,064)
Sewage	1,737,605	1,715,127	1,811,900	2,120,638	(74,295)	(405,511)
DART	728,710	736,014	299,561	494,511	429,149	241,503
Total expenses	<u>\$ 3,685,626</u>	<u>\$ 3,716,360</u>	<u>\$ 3,760,912</u>	<u>\$ 4,005,432</u>	<u>\$ (75,286)</u>	<u>\$ (289,072)</u>

The expenditures in the Water Fund increased due to a number of major water main breaks and the Sewage Fund increased due to the increased cost for contractual operations and costs associated with capital projects. Our contractual operations with Earth Tech increased at the annual Proposal A rate of inflation or 3 percent, whichever is less. The last four-year extension (ending July 1, 2004) with Earth Tech averaged an increase of 3.0 percent.

In the DART Fund a reduction in the specialized services pass-through contract with Thunder Bay Transportation resulted in a decrease in expenses in 2005.

Revenues by Source - Business-type Activities



Program revenue in the Water fund was higher in 2005, due to an increase in Township flow. Sewer revenues declined due mainly to the significant decrease in trucked waste.

In the DART fund there was a slight increase in revenue due to an increase in fares and a review of operating hours.

Financial Analysis of the Government's Funds

As noted earlier, the City of Alpena uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Alpena's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Alpena's financing requirements. In particular *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

As of the end of the current fiscal year, the City of Alpena's governmental funds reported combined ending fund balances of \$6,208,496, an increase of \$146,021 in comparison with the prior year. Approximately 74% of this total amount (\$4,545,527) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to pay debt service (\$21,141), and 2) for future capital outlay (\$1,641,828).

The general fund is the chief operating fund of the City of Alpena. At the end of the current fiscal year, the fund balance of the general fund was \$2,058,127, all of which was unreserved. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represented 24% of total general fund expenditures and operating transfers to other funds.

The fund balance of the City of Alpena's General Fund increased by \$38,842 during the current fiscal year. The increase is due to the increase in property tax revenue.

The major and local street funds have unreserved fund balances of \$420,014 and \$1,107,173, respectively. This represents funds available for future street maintenance and construction.

The City of Alpena has established a budget stabilization fund to account for funds accumulated as described in Public Act No. 30 of 1978. During fiscal 2005, the City transferred \$207,489 to the general fund to maintain services. This left \$170,000 remaining in unreserved fund balance.

The debt service funds have a total fund balance of \$21,141, all of which is reserved for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was minimal \$5,043. The City of Alpena was able to make additional payments to reduce the balance of the Land Purchase Bank Loan.

The City at the end of the fiscal year had \$1,641,828 in fund balance reserved for future capital outlay in its combined capital project funds.

Proprietary funds. The City of Alpena's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewage and DART funds at the end of the year amounted to \$1,347,638, \$1,327,619, and \$89,093, respectively. The change in net assets for the funds was (\$371,450), \$14,593, and (\$135,904), respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Alpena's business-type activities.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were (\$68,788), a decrease in appropriations and can be briefly summarized as follows:

- \$ 47,997 in increases in general government activities
- \$ (155,330) in decreases allocated to public safety
- \$ 33,082 in increases allocated to public works
- \$ 73 in increases to parks and recreation
- \$ 5,390 in increases to operating transfers to other funds

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Asset and Debt Administration

Capital assets. The City of Alpena's investment in capital assets for its governmental and business type activities as of June 30, 2005, amounts to \$48,922,467 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, building and improvements, machinery and equipment and infrastructure.

Major capital asset events during the current fiscal year included the following:

- Over \$300,000 in sidewalk improvements and removal of a Underground Storage Tank.
- Approximately \$1,069,369 in infrastructure additions/improvements to City streets.
- Over \$331,000 in Park Improvements, most notably Riverfront Improvements, LaMarre Park and Oxbow Park.
- There was over \$390,000 in capital improvements in the Water Plant including cold storage expansion at Long Lake Avenue.
- There were approximately \$304,000 of capital costs in the Sewage Treatment plant , most notably Oxbow Park.
- \$142,640 for the replacement of a sprinkler system at the Cemetery.
- \$165,820 for Safety and Hazardous Material Equipment for the Fire Department.

CITY OF ALPENA'S, Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Historical cost:						
Land	\$ 2,884,115	\$ 2,883,965	\$ 12	\$ 12	\$ 2,884,127	\$ 2,883,977
Construction in progress	1,702,001	1,423,212	5,361	1,031,621	1,707,362	2,454,833
Land improvements	3,843,897	3,454,135	427,423	332,902	4,271,320	3,787,037
Buildings and improvements	7,401,961	7,338,291	4,431,539	4,179,301	11,833,500	11,517,592
Machinery and equipment	6,650,156	6,197,757	2,125,688	2,250,313	8,775,844	8,448,070
Infrastructure	<u>33,360,002</u>	<u>31,036,625</u>	<u>26,521,045</u>	<u>25,091,792</u>	<u>59,881,047</u>	<u>56,128,417</u>
	<u>55,842,132</u>	<u>52,333,985</u>	<u>33,511,068</u>	<u>32,885,941</u>	<u>89,353,200</u>	<u>85,219,926</u>
Accumulated depreciation:						
Land improvements	(1,023,309)	(926,257)	(73,980)	(60,460)	(1,097,289)	(986,717)
Buildings and improvements	(3,454,562)	(3,392,207)	(1,426,274)	(1,296,560)	(4,880,836)	(4,688,767)
Machinery and equipment	(4,800,237)	(4,461,680)	(1,561,316)	(1,390,767)	(6,361,553)	(5,852,447)
Infrastructure	<u>(17,657,136)</u>	<u>(16,596,083)</u>	<u>(10,433,919)</u>	<u>(9,962,146)</u>	<u>(28,091,055)</u>	<u>(26,558,229)</u>
	<u>(26,935,244)</u>	<u>(25,376,227)</u>	<u>(13,495,489)</u>	<u>(12,709,933)</u>	<u>(40,430,733)</u>	<u>(38,086,160)</u>
Net Capital Assets	<u>\$ 28,906,888</u>	<u>\$ 26,957,758</u>	<u>\$ 20,015,579</u>	<u>\$ 20,176,008</u>	<u>\$ 48,922,467</u>	<u>\$ 47,133,766</u>

Additional information on the City of Alpena's capital assets can be found in Note 6 on pages 80-81 of this report.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ALPENA'S OUTSTANDING DEBT

**CITY OF ALPENA'S, Outstanding Debt
Bonds and Loans**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 2,255,000	\$ 2,600,000	\$ -	\$ -	\$ 2,255,000	\$ 2,600,000
Building authority bonds	2,160,000	380,000	-	-	2,160,000	380,000
Land purchase bank loan	338,362	388,903	-	-	338,362	388,903
Installment loan	13,085	26,170	-	-	13,085	26,170
Revenue bonds	-	-	3,400,000	3,500,000	3,400,000	3,500,000
	<u>\$ 4,766,447</u>	<u>\$ 3,395,073</u>	<u>\$ 3,400,000</u>	<u>\$,500,000</u>	<u>\$ 8,166,447</u>	<u>\$ 6,895,073</u>

The City of Alpena and its Water and Sewer Authority both maintain an "AA" rating from Standard & Poor's and Fitch and an "Aa" rating from Moody's for general obligation debt. The revenue bonds of the Water and Sewer Authority have been rated "A" by all three of these rating agencies. The City of Alpena Building Authority has been rated "BBB+".

State statutes limit the amount of general obligation debt a governmental entity may issue to 8 percent of its total assessed valuation. The current debt limitation for the City of Alpena is \$20,171,861, which is significantly in excess of the City of Alpena's outstanding general obligation debt.

At the end of the current fiscal year, the City of Alpena had total debt outstanding of \$8,166,447. Of this amount, \$2,255,000 comprises general obligation bond debt backed by the full faith and credit of the government, \$2,160,000 is building authority bonds and \$338,362, a bank loan secured by land. The remainder of the City of Alpena's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

The City of Alpena Building Authority issued new debt of \$1,800,000 in building Authority Bonds, which was used to finance the construction of a new DPW facility.

Additional information on the City of Alpena's long-term debt can be found in Note 8 on pages 83-85 of this report.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

Economic Factors and Next Year's Budgets and Rates

- At fiscal year end 2005, the unemployment rate for the City of Alpena was 6.6 percent, which is a increase from last year's percentage of 6.1. County wide the unemployment rate is 6.6 percent compared to 6.9 percent for the state.
- There has been a continual decline in the State Revenue Sharing. We received \$37,000 less in fiscal year ending 2002, \$183,513 less in fiscal year ending 2003, and \$52,990 less in fiscal year ending 2004. In fiscal year ending 2005, we received \$1,422,328 which is \$59,726 less than fiscal year ending 2004. The State projects the same level of revenue for 2006 that was received in 2005. If budget projections for this year are correct, the City will have lost a cumulative amount of \$864,245 since fiscal year ending 2002.
- The City continues to meet with the County, the Target 2000 Board and the Chamber of Commerce to discuss a economic development partnership. The goal of the partnership would be to aggressively recruit new business to Alpena as well as to work with existing businesses to ensure their growth and success.
- While the City experienced job and tax revenue losses with the closure of Fletcher Paper and BBI Industries, there are new development projects that will have a positive impact on Alpena's economy:
 1. Alpena Marc LLC acquired the former Fletcher Paper Mill site for conversion into a mixed-use development consisting of retail, institutional, restaurant, hotel, and limited-specialty manufacturing (brewery & soft drink manufacture). The 6 to 8 year project will cost from \$33 to \$60 million. They have completed the brewery portion of the project.
 2. Walden Properties LLC acquired Oxbow Park, which is a 40-acre site on the City's northwest side. This site is part of the Northern Tier Renaissance Zone and qualifies owners from State single business, personal income, local property and education taxes for 15 years commencing January 1, 2000). The site will be a mixed-use development with residential units that include condominium units, townhouses, apartments, single family detached and zero lot line homes, as well as mixed retail and office uses. The total project cost is estimated at \$50 million.
 3. Walden Properties LLC intends to construct two 8-story residential structures containing a maximum of 47 condominium units on the edge of the Thunder Bay River in the downtown area. The project, known as Rivers Edge Condominiums has a development cost of between \$12 and \$15 million.
- Both the Coast Guard and NOAA have a presence in Alpena. The Coast Guard will be developing a full-time station in Alpena along the Thunder Bay River near Second Avenue. The Thunder Bay National Marine Sanctuary and Underwater Preserve, operated by NOAA, have developed a new site along the Thunder Bay River and expect to attract 80,000 visitors a year.

During the current fiscal year, unreserved fund balance in the general fund is estimated to be \$1,494,176. Per the Municipal Council's direction, the City must maintain a minimum fund balance of 10% of expenses, but strive to increase it to 15%. The final projected fund balance was \$1,532,624 for 2005 but the actual fund balance was \$2,058,127, a difference of \$525,503. This difference in projected and actual is largely due to timing of the completion of capital projects.

City of Alpena

MANAGEMENT'S DISCUSSION AND ANALYSIS

With the decrease of state revenue sharing and tax revenues remaining flat, the City was forced to use \$207,489 from the Budget Stabilization Fund for the 2004/2005 fiscal year. There are also vacant positions in the Police, Fire, Clerical and Department of Public Works that have not been filled, and the staffing in the City Clerk/Treasurer/Finance Director's office was reduced.

The maximum charter millage rate is 17.50, but due to Headlee reductions the City's 2005 maximum millage is 16.2316. The City levies the full 16.2316.

The above factors will still be affecting the financial situation of the City for fiscal year 2005-2006 and we have budgeted accordingly, with another transfer from the Budget Stabilization necessary. This transfer will leave no reserves in this Fund for fiscal year 2006-2007.

Another area that may impact the City's Finances is the Retirement Fund. We have had a very healthy Fund with over 100% funding since 1984, and since 1999, the City has had to make contributions for the Firemen's group only. The contributions are beginning to increase, (they increased from \$27,790 in 2004/2005 to \$129,008 in 2005/2006.) We have a four year smoothing schedule that is beginning to reflect the low interest rates of the last several years. I would anticipate higher City contributions for the upcoming years.

The Water and Sewer Funds rates were increased 2.3% for the 2005-2006 fiscal year. These funds are increased annually to ensure a continuous level of service for the customers, as well as funding capital improvements necessary to repair, maintain and upgrade the system. The City is currently investigating State of Michigan Revolving Loan Programs to facilitate sewer and water infrastructure improvements.

Requests for Information

This financial report is designed to provide a general overview of the City of Alpena's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this Report or requests for additional information should be addressed to the Office of the City Clerk/Treasurer/Finance Director, 208 N. First Avenue, City of Alpena, Alpena, MI 49707. E-mail: karenh@alpena.mi.us, website: www.alpena.mi.us

City of Alpena

STATEMENT OF NET ASSETS

June 30, 2005

	Primary Government			Component
	Governmental	Business-type	Total	Units
	Activities	Activities		
ASSETS				
Pooled cash and investments	\$ 2,037,771	\$ 2,476,942	\$ 4,514,713	\$ 18,585
Cash and cash equivalents	1,126,697	88,243	1,214,940	80,673
Investments - at fair value	5,467,262	199,812	5,667,074	-
Receivables (net of allowance for uncollectible accounts)	1,243,307	749,401	1,992,708	37
Internal balances	(57,393)	57,393	-	-
Due from primary government	-	-	-	10,785
Inventories	172,896	-	172,896	-
Prepaid items	4,075	5,645	9,720	-
Deferred charges	-	38,750	38,750	-
Noncurrent assets:				
Capital assets not being depreciated	4,586,116	5,373	4,591,489	77,156
Capital assets, net of accumulated depreciation	24,320,772	20,010,206	44,330,978	47,077
Total assets	38,901,503	23,631,765	62,533,268	234,313
LIABILITIES				
Accounts payable	358,183	54,363	412,546	54
Accrued payroll	159,057	1,814	160,871	913
Accrued interest payable	47,892	40,950	88,842	-
Due to component units	10,785	-	10,785	-
Noncurrent liabilities				
Due within one year				
Compensated absences	264,845	-	264,845	-
Bonds and loans	453,626	150,000	603,626	-
Due in more than one year				
Compensated absences	174,006	-	174,006	-
Bonds and loans	4,312,821	3,250,000	7,562,821	-
Total liabilities	5,781,215	3,497,127	9,278,342	967
NET ASSETS				
Invested in capital assets, net of related debt	24,140,441	16,615,577	40,756,018	124,233
Restricted for:				
Debt service	21,141	358,500	379,641	-
Capital outlay	1,641,828	396,209	2,038,037	-
Unrestricted	7,316,878	2,764,352	10,081,230	109,113
Total net assets	\$ 33,120,288	\$ 20,134,638	\$ 53,254,926	\$ 233,346

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2005

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental activities:				
General government	\$ 2,854,309	\$ 800,994	\$ 225,487	\$ -
Public safety	3,983,177	994,356	798,541	-
Public works	3,080,038	934,899	1,045,119	505,570
Parks and recreation	803,975	278,968	163,689	-
Interest on long-term debt	199,798	-	-	-
Total governmental activities	<u>10,921,297</u>	<u>3,009,217</u>	<u>2,232,836</u>	<u>505,570</u>
Business-type activities:				
Water	1,219,311	1,407,893	241,558	-
Sewage	1,737,605	1,662,131	149,769	-
DART	<u>728,710</u>	<u>75,663</u>	<u>223,898</u>	<u>-</u>
Total business-type activities	<u>3,685,626</u>	<u>3,145,687</u>	<u>615,225</u>	<u>-</u>
Total primary government	<u>\$ 14,606,923</u>	<u>\$ 6,154,904</u>	<u>\$ 2,848,061</u>	<u>\$ 505,570</u>
Component Units:				
Downtown Development Authority No.2	\$ 52,914	\$ -	\$ 8,913	\$ -
Downtown Development Authority No.5	22,660	-	600	-
Economic Development Corporation	-	-	-	-
	<u>\$ 75,574</u>	<u>\$ -</u>	<u>\$ 9,513</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Property taxes, levied for debt service

State sales tax

Investment earnings

Gain on sale of capital assets

Total general revenues

Change in net assets

Net assets - beginning of the year

Net assets - end of the year

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (1,827,828)	\$ -	\$ (1,827,828)	\$ -
(2,190,280)	-	(2,190,280)	-
(594,450)	-	(594,450)	-
(361,318)	-	(361,318)	-
(199,798)	-	(199,798)	-
(5,173,674)	-	(5,173,674)	-
-	430,140	430,140	-
-	74,295	74,295	-
-	(429,149)	(429,149)	-
-	75,286	75,286	-
(5,173,674)	75,286	(5,098,388)	-
-	-	-	(44,001)
-	-	-	(22,060)
-	-	-	-
-	-	-	(66,061)
4,095,547	122,433	4,217,980	88,393
332,184	-	332,184	-
1,424,107	-	1,424,107	-
216,529	52,400	268,929	2,516
18,186	-	18,186	-
6,086,553	174,833	6,261,386	90,909
912,879	250,119	1,162,998	24,848
32,207,409	19,884,519	52,091,928	208,498
\$ 33,120,288	\$ 20,134,638	\$ 53,254,926	\$ 233,346

See accompanying notes to financial statements.

City of Alpena

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2005

	General	Major Street	Local Street
ASSETS			
Pooled cash and investments	\$ -	\$ 83,382	\$ 338,881
Cash and cash equivalents	439,082	-	-
Investments	3,158,231	-	-
Receivables (net of allowance for for uncollectible accounts)	725,321	373,494	86,186
Due from other funds	-	-	828,307
Total assets	<u>\$ 4,322,634</u>	<u>\$ 456,876</u>	<u>\$ 1,253,374</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 251,373	\$ 25,765	\$ 73,696
Accrued payroll	143,140	4,364	6,948
Due to other funds	1,660,308	-	-
Due to component units	10,785	-	-
Deferred revenue	198,901	6,733	65,557
Total liabilities	<u>2,264,507</u>	<u>36,862</u>	<u>146,201</u>
Fund Balances:			
Reserved for debt service	-	-	-
Reserved for capital outlay	-	-	-
Unreserved, reported in:			
General fund	2,058,127	-	-
Special revenue funds	-	420,014	1,107,173
Permanent fund	-	-	-
Total fund balances	<u>2,058,127</u>	<u>420,014</u>	<u>1,107,173</u>
Total liabilities and fund balances	<u>\$ 4,322,634</u>	<u>\$ 456,876</u>	<u>\$ 1,253,374</u>

Budget Stabilization	Building Authority Construction	Other Governmental Funds	Total Governmental Funds
\$ 170,000	\$ -	\$ 1,038,698	\$ 1,630,961
-	620,049	67,566	1,126,697
-	-	705,844	3,864,075
-	-	10,287	1,195,288
-	-	10,738	839,045
<u>\$ 170,000</u>	<u>\$ 620,049</u>	<u>\$ 1,833,133</u>	<u>\$ 8,656,066</u>
\$ -	\$ -	\$ -	\$ 350,834
-	-	-	154,452
-	-	-	1,660,308
-	-	-	10,785
-	-	-	271,191
<u>-</u>	<u>-</u>	<u>-</u>	<u>2,447,570</u>
-	-	21,141	21,141
-	620,049	1,021,779	1,641,828
-	-	-	2,058,127
170,000	-	-	1,697,187
-	-	790,213	790,213
<u>170,000</u>	<u>620,049</u>	<u>1,833,133</u>	<u>6,208,496</u>
<u>\$ 170,000</u>	<u>\$ 620,049</u>	<u>\$ 1,833,133</u>	<u>\$ 8,656,066</u>

See accompanying notes to financial statements.

City of Alpena

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS - GOVERNMENTAL FUNDS**

As of June 30, 2005

Fund balances - Total governmental funds		\$	6,208,496
--	--	----	-----------

Amounts reported for governmental activities in the Statement of
Net Assets are different because:

Capital assets used in governmental activities are not financial
resources and therefore not reported in the governmental funds.

Governmental capital assets	\$	51,421,450	
Less accumulated depreciation		<u>(23,653,524)</u>	27,767,926

Deferred revenue in the governmental funds is susceptible to
full accrual on the Statement of Net Assets.

Deferred revenue			271,191
------------------	--	--	---------

Long-term liabilities, including bonds payable are not due and
payable in the current period and therefore are not reported
in the governmental funds.

Bonds payable	(4,415,000)	
Land purchase bank loan	(338,362)	
Accrued interest payable	(47,892)	
Compensated absences	<u>(438,851)</u>	(5,240,105)

Internal service funds are used by management to charge the costs
of certain activities to individual funds. The assets and liabilities of
internal service funds are included in governmental activities in the
Statement of Net Assets.

	<u>4,112,780</u>
--	------------------

Net Assets of Governmental Activities		\$	<u><u>33,120,288</u></u>
---------------------------------------	--	----	--------------------------

City of Alpena

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 4,104,605	\$ -	\$ -
Licenses and permits	154,869	-	-
State revenue	2,038,897	1,222,750	243,239
Federal revenue	77,473	-	-
Local grant revenue	580,154	-	-
Charges for services	1,168,492	2,675	38,207
Investment income and rents	163,634	6,806	29,962
Fines and forfeitures	39,050	-	-
Other	238,619	-	1,810
Total revenues	<u>8,565,793</u>	<u>1,232,231</u>	<u>313,218</u>
EXPENDITURES			
Current operations			
General government	2,017,581	-	-
Public safety	4,026,676	-	-
Public works	961,208	1,271,226	759,898
Parks and recreation	969,685	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	-	-	-
Interest and fees	-	-	-
Total expenditures	<u>7,975,150</u>	<u>1,271,226</u>	<u>759,898</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>590,643</u>	<u>(38,995)</u>	<u>(446,680)</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds	-	-	-
Transfers from other funds	207,489	-	525,000
Transfers to other funds	(759,290)	-	-
Total other financing sources (uses)	<u>(551,801)</u>	<u>-</u>	<u>525,000</u>
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	38,842	(38,995)	78,320
FUND BALANCES, beginning of the year	<u>2,019,285</u>	<u>459,009</u>	<u>1,028,853</u>
FUND BALANCES, end of the year	<u>\$ 2,058,127</u>	<u>\$ 420,014</u>	<u>\$ 1,107,173</u>

Budget Stabilization	Building Authority Construction	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 332,184	\$ 4,436,789
-	-	-	154,869
-	-	-	3,504,886
-	-	-	77,473
-	-	-	580,154
-	-	12,090	1,221,464
7,489	7,936	85,300	301,127
-	-	-	39,050
-	-	11,446	251,875
<u>7,489</u>	<u>7,936</u>	<u>441,020</u>	<u>10,567,687</u>
-	-	30,008	2,047,589
-	-	-	4,026,676
-	-	-	2,992,332
-	-	-	969,685
-	1,527,252	57,789	1,585,041
-	-	415,541	415,541
-	-	183,302	183,302
<u>-</u>	<u>1,527,252</u>	<u>686,640</u>	<u>12,220,166</u>
<u>7,489</u>	<u>(1,519,316)</u>	<u>(245,620)</u>	<u>(1,652,479)</u>
-	1,800,000	-	1,800,000
-	300,000	232,790	1,265,279
(207,489)	-	(300,000)	(1,266,779)
<u>(207,489)</u>	<u>2,100,000</u>	<u>(67,210)</u>	<u>1,798,500</u>
(200,000)	580,684	(312,830)	146,021
<u>370,000</u>	<u>39,365</u>	<u>2,145,963</u>	<u>6,062,475</u>
<u>\$ 170,000</u>	<u>\$ 620,049</u>	<u>\$ 1,833,133</u>	<u>\$ 6,208,496</u>

See accompanying notes to financial statements.

City of Alpena

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

Net change in fund balances - Total governmental funds		\$	146,021
--	--	----	---------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	\$	3,764,522	
Less current year depreciation		(1,484,234)	2,280,288

The borrowing of and repayment of bond and land purchase bank loan principal is an other financing source and expenditure in the governmental funds, but the borrowings increase long-term liabilities and the repayments reduces long-term liabilities in the statement of net assets.

Bond proceeds	(1,800,000)	
Bond principal payments	365,000	
Land purchase bank loan principal payments	50,541	(1,384,459)

Some revenues (costs) reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Net book value of assets sold or retired	(169,382)	
Change in deferred revenue	(6,953)	(176,335)

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Change in accrued interest payable	(16,496)	
Change in long-term compensated absences	(13,926)	(30,422)

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.

77,786

Change in Net Assets of Governmental Activities	\$	912,879
---	----	---------

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
ASSETS			
Current assets			
Pooled cash and investments	\$ 1,049,652	\$ 1,427,290	\$ -
Cash and cash equivalents	-	-	88,243
Investments	199,812	-	-
Accounts receivable (net of allowance for uncollectible accounts)	596,914	148,729	3,758
Due from other funds	51,556	-	5,837
Inventories	-	-	-
Prepaid items	-	-	5,645
Total current assets	<u>1,897,934</u>	<u>1,576,019</u>	<u>103,483</u>
Noncurrent assets			
Deferred charges	19,375	19,375	-
Capital assets not being depreciated	5,365	8	-
Capital assets, net of accumulated depreciation	<u>6,122,531</u>	<u>13,841,850</u>	<u>45,825</u>
Total noncurrent assets	<u>6,147,271</u>	<u>13,861,233</u>	<u>45,825</u>
Total assets	<u>8,045,205</u>	<u>15,437,252</u>	<u>149,308</u>
LIABILITIES			
Current liabilities			
Accounts payable	5,628	34,345	14,390
Accrued payroll	696	1,118	-
Accrued interest payable	20,475	20,475	-
Due to other funds	-	-	-
Unearned revenue	-	-	-
Bonds and notes payable - current portion	<u>75,000</u>	<u>75,000</u>	<u>-</u>
Total current liabilities	<u>101,799</u>	<u>130,938</u>	<u>14,390</u>
Noncurrent liabilities			
Bonds and notes payable	<u>1,625,000</u>	<u>1,625,000</u>	<u>-</u>
Total liabilities	<u>1,726,799</u>	<u>1,755,938</u>	<u>14,390</u>
NET ASSETS			
Invested in capital assets, net of related debt	4,427,896	12,141,858	45,825
Restricted for debt service	179,250	179,250	-
Restricted for capital asset purchases	363,622	32,587	-
Unrestricted	<u>1,347,638</u>	<u>1,327,619</u>	<u>89,093</u>
Total net assets	<u>\$ 6,318,406</u>	<u>\$ 13,681,314</u>	<u>\$ 134,918</u>

Totals Current Year	Governmental Activities - Internal Service Funds
\$ 2,476,942	\$ 406,810
88,243	-
199,812	1,603,187
749,401	48,019
57,393	763,870
-	172,896
5,645	4,075
<u>3,577,436</u>	<u>2,998,857</u>
38,750	-
5,373	2,272
20,010,206	1,136,690
<u>20,054,329</u>	<u>1,138,962</u>
<u>23,631,765</u>	<u>4,137,819</u>
54,363	7,349
1,814	4,605
40,950	-
-	-
-	-
150,000	13,085
<u>247,127</u>	<u>25,039</u>
<u>3,250,000</u>	<u>-</u>
<u>3,497,127</u>	<u>25,039</u>
16,615,579	1,125,877
358,500	-
396,209	-
2,764,350	2,986,903
<u>\$ 20,134,638</u>	<u>\$ 4,112,780</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
OPERATING REVENUES			
Charges for services	\$ 1,385,360	\$ 1,654,486	\$ 75,643
Other services	22,533	7,645	20
Total operating revenues	1,407,893	1,662,131	75,663
OPERATING EXPENSES			
Salaries and wages	23,300	28,308	-
Employee benefits	10,114	13,174	-
Administrative services	89,618	106,090	8,800
Contracted services	662,473	727,300	418,394
Insurance	19,117	43,922	11,740
Utilities	84,017	210,757	2,620
Maintenance	10,566	8,881	39
Equipment rental	18,666	23,064	-
Depreciation	207,422	524,481	78,216
Supplies and other	94,018	51,628	40,239
Total operating expenses	1,219,311	1,737,605	560,048
OPERATING INCOME (LOSS)	188,582	(75,474)	(484,385)
NONOPERATING REVENUES (EXPENSES)			
Property taxes	-	-	122,433
State revenue	-	-	315,574
Federal revenue	241,558	149,769	46,265
Investment income and rents	25,641	24,609	2,150
Donations	-	-	-
Gain on sale of assets	-	-	-
Interest expense	(84,331)	(84,331)	-
Specialized services pass-through	-	-	(137,941)
Total nonoperating revenues (expenses)	182,868	90,047	348,481
Net income before transfers	371,450	14,573	(135,904)
Transfers in / (out)	-	-	-
Change in net assets	371,450	14,573	(135,904)
Net assets - beginning of the year	5,946,956	13,666,741	270,822
Net assets - end of the year	\$ 6,318,406	\$ 13,681,314	\$ 134,918

Totals	Governmental
Current Year	Activities -
	Internal
	Service
	Funds
\$ 3,115,489	\$ 1,230,713
30,198	-
<u>3,145,687</u>	<u>1,230,713</u>
51,608	130,095
23,288	73,882
204,508	241,270
1,808,167	-
74,779	46,527
297,394	-
19,486	141,044
41,730	-
810,119	324,712
185,885	239,626
<u>3,516,964</u>	<u>1,197,156</u>
<u>(371,277)</u>	<u>33,557</u>
122,433	-
315,574	-
437,592	-
52,400	32,650
-	3,000
-	7,079
(168,662)	-
(137,941)	-
<u>621,396</u>	<u>42,729</u>
250,119	76,286
<u>-</u>	<u>1,500</u>
250,119	77,786
<u>19,884,519</u>	<u>4,034,994</u>
<u>\$ 20,134,638</u>	<u>\$ 4,112,780</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,352,501	\$ 1,653,348	\$ 98,801
Receipts from interfund services provided	-	-	-
Payments to suppliers	(895,346)	(1,055,371)	(499,299)
Payments to employees	(33,078)	(41,292)	-
Payments for interfund services used	(89,618)	(106,090)	-
Net cash provided (used) by operating activities	334,459	450,595	(400,498)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	-	-	-
Property taxes	-	-	122,433
State grants	-	-	315,574
Federal grants	241,558	149,769	46,265
Specialized services pass-through	-	-	(137,941)
	241,558	149,769	346,331
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(366,500)	(283,190)	-
Principal paid on capital debt	(50,000)	(50,000)	-
Interest paid on capital debt	(83,612)	(83,612)	-
Proceeds from sale of capital assets	-	-	-
Net cash provided (used) by capital and related financing activities	(500,112)	(416,802)	-
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sales and maturities of investments	1,300,000	1,100,000	-
Purchase of investments	(500,000)	(300,000)	-
Donations received	-	-	-
Interest and dividends received	29,148	29,601	2,150
Net cash provided (used) by investing activities	829,148	829,601	2,150
Net increase (decrease) in cash and cash equivalents	905,053	1,013,163	(52,017)
CASH AND CASH EQUIVALENTS, beginning of the year	144,599	414,127	140,260
CASH AND CASH EQUIVALENTS, end of the year	\$ 1,049,652	\$ 1,427,290	\$ 88,243

Totals	Governmental
Current Year	Activities -
	Internal
	Service
	Funds
\$ 3,104,650	\$ -
-	1,245,657
(2,450,016)	(386,107)
(74,370)	(203,599)
(195,708)	(251,779)
<u>384,556</u>	<u>404,172</u>
-	1,500
122,433	-
315,574	-
437,592	-
(137,941)	-
<u>737,658</u>	<u>1,500</u>
(649,690)	(162,936)
(100,000)	(13,085)
(167,224)	-
-	7,079
<u>(916,914)</u>	<u>(168,942)</u>
2,400,000	409,328
(800,000)	(400,000)
-	3,000
60,899	44,447
<u>1,660,899</u>	<u>56,775</u>
1,866,199	293,505
<u>698,986</u>	<u>113,305</u>
<u>\$ 2,565,185</u>	<u>\$ 406,810</u>

City of Alpena

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS - Continued**

For the Year Ended June 30, 2005

	Business-type Activities - Enterprise Funds		
	Water	Sewage	DART
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ 188,582	\$ (75,474)	\$ (484,385)
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	207,422	524,481	78,216
(Increase) decrease in accounts receivable	13,768	921	23,138
(Increase) decrease in special assessments receivable	847	1,694	-
(Increase) decrease in due from governmental units	(69,160)	(9,704)	-
(Increase) decrease in internal balances	-	-	(4,810)
(Increase) decrease inventories	-	-	-
(Increase) decrease in prepaid items	-	-	(1,743)
Increase (decrease) in accounts payable	(6,489)	10,181	(10,914)
Increase (decrease) in accrued payroll	336	190	-
Increase (decrease) in unearned revenue	(847)	(1,694)	-
Net cash provided (used) by operating activities	<u>\$ 334,459</u>	<u>\$ 450,595</u>	<u>\$ (400,498)</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase (decrease) in the fair value of investments	<u>\$ (226)</u>	<u>\$ (171)</u>	<u>\$ -</u>

Totals	Governmental
Current Year	Activities -
	Internal
	Service
	Funds
\$ (371,277)	\$ 33,557
810,119	324,712
37,827	14,945
2,541	-
(78,864)	-
(4,810)	(10,509)
-	36,049
(1,743)	4,075
(7,222)	965
526	378
(2,541)	-
<u>\$ 384,556</u>	<u>\$ 404,172</u>
<u>\$ (397)</u>	<u>\$ (11,797)</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2005

	Pension (and Other Employee Benefit) Trust Funds	Agency Funds
ASSETS		
Cash and cash equivalents	\$ 3,003,444	\$ 50,207
Investments - at fair value		
Common stock	9,571,746	-
Corporate bonds	11,426,231	-
U.S. Government bonds	2,219,240	-
Interest receivable	188,413	-
Taxes receivable	-	2,457
Total assets	26,409,074	52,664
LIABILITIES		
Accounts payable	15,737	50,207
Due to other governmental units	-	2,457
Total liabilities	15,737	52,664
NET ASSETS		
Held in trust for pension benefits and other purposes	26,393,337	-
Unrestricted	-	-
	<u>\$ 26,393,337</u>	<u>\$ -</u>

See accompanying notes to financial statements.

City of Alpena

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

For the year ended June 30, 2005

	Pension (and Other Employee Benefit) Trust Funds
ADDITIONS	
Contributions	
Employer	\$ 174,900
Employees	124,676
Other	4,900
Total contributions	<u>304,476</u>
Investment income	
Net increase (decrease) in fair value of investments	(80,808)
Interest	595,479
Dividends	<u>161,735</u>
	676,406
Less investment expense	<u>77,626</u>
Net investment income	<u>598,780</u>
Total additions	<u>903,256</u>
DEDUCTIONS	
Benefits	1,570,847
Lump-sum retirement payments	165,573
Refund of contributions	-
Administrative expense	<u>23,073</u>
Total deductions	<u>1,759,493</u>
Change in net assets	(856,237)
Net assets - beginning of the year	<u>27,249,574</u>
Net assets - end of the year	<u>\$ 26,393,337</u>

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2005

	Downtown Development Authority No. 2	Downtown Development Authority No. 5	Economic Development Corporation	Total
ASSETS				
Pooled cash and investments	\$ -	\$ 18,585	\$ -	\$ 18,585
Cash and cash equivalents	77,072	-	3,601	80,673
Receivables (net of allowance for uncollectible accounts)	-	37	-	37
Due from primary government	10,785	-	-	10,785
Capital assets not being depreciated	77,156	-	-	77,156
Capital assets, net of accumulated depreciation	47,077	-	-	47,077
Total assets	212,090	18,622	3,601	234,313
LIABILITIES				
Accounts payable	-	54	-	54
Accrued payroll	475	438	-	913
Total liabilities	475	492	-	967
NET ASSETS				
Invested in capital assets, net of related debt	124,233	-	-	124,233
Unrestricted	87,382	18,130	3,601	109,113
Total net assets	\$ 211,615	\$ 18,130	\$ 3,601	\$ 233,346

See accompanying notes to financial statements.

City of Alpena

STATEMENT OF ACTIVITIES - COMPONENT UNITS

For the Year Ended June 30, 2005

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Downtown Development Authority No.2	\$ 52,914	\$ -	\$ 8,913	\$ -
Downtown Development Authority No.5	22,660	-	600	-
Economic Development Corporation	-	-	-	-
	<u>\$ 75,574</u>	<u>\$ -</u>	<u>\$ 9,513</u>	<u>\$ -</u>

General revenues:

Property taxes, levied for general purposes

Investment earnings

Total general revenues and transfers

Change in net assets

Net assets - beginning of the year

Net assets - end of the year

Net (Expense) Revenue and Changes in Net Assets			
Downtown Development Authority No. 2	Downtown Development Authority No. 5	Economic Development Corporation	Total
\$ (44,001)	\$ -	\$ -	\$ (44,001)
-	(22,060)	-	(22,060)
-	-	-	-
(44,001)	(22,060)	-	(66,061)
68,593	19,800	-	88,393
1,946	557	13	2,516
70,539	20,357	13	90,909
26,538	(1,703)	13	24,848
185,077	19,833	3,588	208,498
\$ 211,615	\$ 18,130	\$ 3,601	\$ 233,346

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.

The accounting policies of the City of Alpena (City) conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Alpena:

A. Reporting Entity.

The City was incorporated in 1871 and covers an area of approximately nine square miles. The City operates under an elected Municipal Council (consisting of the Mayor and four members) and provides services to approximately 11,304 residents (2000 census) in many areas including law enforcement, fire, water, sewer, community enrichment and development, and human services.

Education and health services are provided by a local school district, a community college, a general hospital and a public library; these units are separate governmental units or are parts of separate governmental units and their financial statements are not included herein, in accordance with the Governmental Accounting Standards Board Codification Section 2100.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

Blended component units - A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City of Alpena. It is reported as a part of the City and blended into the appropriate fund types and account groups.

Building Authority - The City of Alpena Building Authority is governed by a three member board appointed by the City's governing body. Although it is legally separate from the City, the Building Authority is reported as if it were a part of the primary government because its sole purpose is to finance and construct the City's public buildings.

Discretely presented component units - The component units' columns in the government-wide combined financial statements include the financial data of the City's three component units. These units are reported in a separate column to emphasize that they are legally separate from the City.

City of Alpena Downtown Development Authority (DDA) No. 2 and No. 5 - (Governmental Fund Type)

- City approves operating budget
- City appoints governing board
- City issues bonds to finance Authority projects
- Surplus funds existing at termination of Authority vest to the City

The Downtown Development Authorities were organized to promote and rehabilitate the downtown area. The Authorities also sponsor downtown events.

City of Alpena Economic Development Corporation (EDC) - (Governmental Fund Type)

- City appoints governing board
- City approves issuance of bonds to finance projects
- Surplus funds existing at termination of Corporation vest to City

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

The EDC was created to encourage business development and job creation within the City. The EDC provides loans to start up or expanding businesses.

Separate financial statements for the three discretely presented component units are not prepared. Questions about these organizations may be directed to the Alpena City Clerk-Treasurer.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

The government reports the following major governmental funds:

General Fund. This fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Street Fund. This fund accounts for the resources of state gas and weight tax revenues that are restricted for use on City streets that have been designated as major by the Michigan Department of Transportation.

Local Street Fund. This fund accounts for the resources of state gas and weight tax revenues that are restricted for use on City streets that have been designated as local by the Michigan Department of Transportation.

Budget Stabilization Fund. This fund is used to account for funds set aside under the provisions of Michigan Public Act 30 of 1978.

Building Authority Construction Fund. This fund is used to record construction activity of the Building Authority of the City of Alpena.

The government reports the following major proprietary funds:

Water Fund. Accounts for the activities related to water production, purification, distribution and billing.

Sewage Fund. Accounts for the activities associated with the collection and purification of wastewater.

Dial-A-Ride Transportation (DART). This fund is used to account for the operation of the public transportation system.

Additionally, the City of Alpena reports the following fund types:

Permanent Funds. Report resources that are legally restricted to the extent that only earnings, and not principal may be used to support operations.

Debt Service Funds. Account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Project Funds. These funds are used to account for the acquisition or construction of capital facilities.

Internal Service Funds. Account for major machinery and equipment purchases and maintenance, as well as supply inventory services provided to other departments of the government on a cost reimbursement basis.

Pension and Other Employee Benefit Trust Funds. Accounts for the activities of the City of Alpena's employee retirement system which accumulates resources for pension benefit payments to qualified employees and funding of employee health care benefits.

Agency Funds. These funds are used to account for assets held in trust or as an agent for others.

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private-sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

D. Assets, Liabilities, and Net Assets or Equity

Cash and Investments. The city maintains and controls two cash and investment pools in which the primary government and component unit's share. Each fund's or component unit's portion of a pool is displayed on its respective balance sheet as "Pooled cash and investments". In addition, Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value which is determined using selective bases. Securities traded on a national exchange are valued at the last reported sales price.

Receivables and Payables. In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Inventories and Prepaid Items. Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Capital Assets. Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Land improvements 20 to 25 years
Buildings 40 to 50 years
Building Improvements 15 to 30 years
Vehicles 6 years
Office Equipment 5 to 7 years
Computer Equipment 3 to 7 years
Water and Sewer Lines 50 to 75 years
Roads 10 to 30 years

Compensated Absences (Vacation and Sick Leave). City employees are granted vacation and sick leave in varying amounts based on length of service. Vacation pay is fully vested when earned; upon termination, employees are paid accumulated vacation at their regular pay rates to a limit of 100% of their current annual earned vacation.

Administrative and non-union employees are granted 120 days of sick leave at the time of hire. If after using some or all of his/her sick leave, an employee goes six (6) months without missing a scheduled day of work, his/her sick leave bank is restored to 120 days. At termination, death, or retirement, no payment is made to an administrative or non-union employee (or heirs) for unused sick leave.

Clerical employees hired prior to July 1, 1989, Public Works employees, and Police Patrol and Command Officers earn sick leave at the rate of one day for each full month worked, up to the following caps:

	<u>Days</u>
Clerical	90
Public Works	65
Police Patrol	130/90*/75**
Police Command	130/90*/75**

*Police Patrol and Command Officers hired after September 1, 1989

**Police Patrol and Command Officers hired after August 1, 2002

Upon retirement, these employees are paid for one-half of their accumulated sick leave based on their hourly straight-time rate of pay at the time of retirement. No payments for unused sick leave are made at termination or death. Clerical employees hired after July 1, 1989, are not entitled to sick leave.

Fire Department employees earn sick leave at the rate of 12 hours for each full month worked with no cap. Upon either retirement or death, Fire Department employees, or heirs, are paid for one-half of their accumulated sick leave based on their regular straight-time hourly rate of pay at the time of retirement or death. The payoff is limited to 13 weeks pay.

All vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year-end.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 1--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. (continued)

Long-Term Obligations. In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Contracted Services. On July 1, 1988 the City turned over operation of its Water and Sewage Treatment Plants to a private contractor, who is also responsible for billings and collection of payments. Except for certain equipment, ownership of these plants remains with the City. Various other maintenance services previously performed by the City are now being provided by independent contractors.

Use of Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data / Reclassifications. Comparative total data for the prior year have been presented only in the management discussion and analysis and in the individual fund financial statements in order to provide an understanding of the changes in the financial position and operations of these funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY.

Budgetary Information. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. Prior to adoption of the budgets, City departments prepare and submit their proposed operating budgets commencing July 1. A public hearing is conducted the second meeting in May to obtain taxpayer comments. Prior to July 1, the budget is adopted by the Council. Budgeted amounts shown are as originally adopted, or as amended by the Council during the year. Unused appropriations lapse at June 30 and are not carried forward to the following year.

After the budget is adopted, the City Manager and the Clerk/Treasurer are authorized to transfer budgeted amounts between accounts within a department. However, any revisions that alter the total expenditures of a department or fund must be approved by the City Council. Activities of the general fund, special revenue funds and debt service funds are included in the annual appropriated budget. Project-length financial plans are adopted for the capital project funds. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriation amount) is established by function within the individual fund.

Individual budget amendments were not material in relation to the original appropriations.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 2--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY. (continued)

Excess of Expenditures Over Appropriations in Budgeted Funds. The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended, (MCL 141.421 et seq.) provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The City of Alpena's budgeted and actual expenditures for the funds budgeted have been shown on a functional basis.

During the year, the City incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Appropriated</u>	<u>Expended</u>	<u>Variance</u>
General Fund – Building Inspection	\$ 120,085	\$ 123,137	\$ (3,052)
Budget Stabilization – Transfers to General Fund	206,000	207,489	(1,489)
General Debt Service – Interest and Fees	49,314	55,330	(6,016)

Accumulated Fund Deficits. The City of Alpena had no funds with an accumulated fund balance/retained earnings deficit at June 30, 2005.

NOTE 3—CASH AND INVESTMENTS.

Michigan Compiled Laws, Section 129.91, authorizes the City of Alpena to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Pension Trust Fund is also authorized to invest in certain reverse repurchase agreements, equity securities, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (limited to 5 percent of the trust fund's assets if total assets are less than \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

The investment policy adopted by the council has authorized investments to those listed under the State's statutory authority as noted above. The City of Alpena's deposits and investments are in accordance with statutory authority.

At year end, the City of Alpena's cash and investments were reported in the accompanying financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Fiduciary Funds</u>	<u>Component Units</u>
Pooled cash and investments	\$ 2,037,771	\$ 2,476,942	\$ -	\$ 18,585
Cash and cash equivalents	1,126,697	88,243	3,053,651	80,673
Investments – at fair value	<u>5,467,262</u>	<u>199,812</u>	<u>23,217,217</u>	<u>-</u>
	<u>\$ 8,631,730</u>	<u>\$ 2,764,997</u>	<u>\$ 26,270,868</u>	<u>\$ 99,258</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 3—CASH AND INVESTMENTS. (continued)

Cash and investments as of June 30, 2005 consisted of the following:

	Governmental Activities	Business- type Activities	Fiduciary Funds	Component Units
Cash on hand	\$ 2,300	\$ -	\$ -	\$ -
Demand deposits	3,162,168	2,565,185	3,053,651	99,258
Investments – at fair value				
Negotiable CD's	1,678,354	199,812	-	-
Equity securities	-	-	9,571,746	-
Corporate bonds	-	-	11,426,231	-
U.S. Government bonds	-	-	2,219,240	-
U.S. Government securities	3,788,908	-	-	-
	<u>\$ 8,631,730</u>	<u>\$ 2,764,997</u>	<u>\$26,270,868</u>	<u>\$ 99,258</u>

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are:

- Uncollateralized
- Collateralized with securities held by the pledging financial institution, or
- Collateralized with securities held by the pledging financial institution's trust department or agent but not in the name of the local unit.

As of June 30, 2005, \$5,515,658 of the City's demand deposits (certificates of deposit, checking, and savings accounts) with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. The City believes that due to the dollar amounts of cash deposits and the preference of depositing City funds at local financial institutions and the limits of federal depository insurance, it is impractical to insure all deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: Michigan law (MCL 129.33) requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 100% of the total amount deposited by the public agencies.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 3—CASH AND INVESTMENTS. (continued)

At year end, the following investment securities were uninsured and unregistered, and held by a counterparty, or by its trust department or agent but not in the City's name:

Investment Type	Fair Value of Government- Wide Investments	Fair Value of Fiduciary Funds Investments	How Held
Negotiable CD's	\$ 1,878,166	\$ -	Counterparty
Equity securities	-	9,571,746	Counterparty
Corporate bonds	-	11,426,231	Counterparty
U.S. Government securities	1,479,877	2,219,240	Counterparty
Total	<u>\$ 3,358,043</u>	<u>\$ 23,217,217</u>	

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric. At year end, the average maturities of investments are as follows:

Investment Type	Fair Value of Government- Wide Investments	Fair Value of Fiduciary Funds Investments	Weighted- Average Maturity
Negotiable CD's	\$,878,166	\$ -	90 days
Corporate bonds	-	11,426,231	1.5 years
U.S. Government bonds	-	2,219,240	1.9 years
U.S. Government securities	3,788,908	-	2.7 years
Total	<u>\$ 5,667,074</u>	<u>\$ 13,645,471</u>	

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) Michigan law, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Fair Value of Investments	Rating	Rating Organization
Corporate bonds	\$ 11,426,231	AA to AAA	Standard and Poor's

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 3—CASH AND INVESTMENTS. (continued)

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

The City's pension trust funds limit equity portfolio investments to no greater than 65 percent and no less than 20 percent.

At June 30, 2005, the City of Alpena's investments are in accordance with City policy.

NOTE 4--RECEIVABLES.

Receivables for the primary government and component units at June 30, 2005 are as follows:

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Receivables (net of allowance for uncollectibles)	\$ 253,621	\$ 666,601	\$ 920,222	\$ -
Special assessments receivable	267,361	-	267,361	-
Taxes receivable	3,830	-	3,830	37
Interest receivable	35,859	3,936	39,795	-
Due from governmental units	634,617	78,864	713,481	-
	<u>\$ 1,195,288</u>	<u>\$ 749,401</u>	<u>\$ 1,944,689</u>	<u>\$ 37</u>

NOTE 5--PROPERTY TAXES.

The City's property tax is levied on each July 1st on the taxable valuation of property located in the City as of the preceding December 31st of the preceding year for all taxable real and personal property located in the City. On July 1, the property tax attachment is an enforceable lien on the property and is payable, without penalty, by July 31. On March 1 of the subsequent year unpaid taxes are returned to the County Treasurer as delinquent.

Although the City's 2004 ad valorem tax is levied and collectible on July 1, 2004, it is City policy to recognize revenues from the current tax levy in the current year when the City proceeds of this levy are budgeted and made available for the financing of City operations.

The 2004 taxable valuation of the City of Alpena amounted to \$252,148,258 on which ad valorem taxes of 16.2316 mills were levied for City operating purposes; 1.3500 mills for debt retirement, .4979 for Dial-A-Ride transportation and .2091 for community events center.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 5--PROPERTY TAXES. (continued)

The 2004 current tax levy raised \$3,925,288 for City operating; \$49,016 for community events center; \$332,184 for the City debt retirement and \$122,433 for Dial-A-Ride transportation. These amounts are recognized in the respective general fund, debt service funds, and enterprise fund financial statements as property tax revenue.

In addition, specific taxes are levied under the Industrial Facilities Tax Act, Tax Increment Financing Authority, and the Downtown Development Authority. City residents also are assessed 8.0062 mills for County operations, 2.4410 mills for the Community College, and 1.0783 mills for the Educational Service District. In addition, nonhomestead properties paid 17.8364 mills while homestead properties paid 6 mills for public schools, along with 2.10 mills for school debt.

NOTE 6--CAPITAL ASSETS.

Capital asset activity of the primary government for the current year was as follows:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Governmental Activities:				
Capital assets not being Depreciated:				
Land	\$ 2,883,965	\$ 150	\$ -	\$,884,115
Construction in progress	95,236	1,702,001	(95,236)	1,702,001
	<u>2,979,201</u>	<u>1,702,151</u>	<u>(95,236)</u>	<u>4,586,116</u>
Capital assets being Depreciated:				
Land improvements	3,466,499	377,398	-	3,843,897
Buildings and improvements	7,435,434	154,585	(188,058)	7,401,961
Machinery and equipment	6,388,651	394,707	(133,202)	6,650,156
Infrastructure	32,064,200	1,300,622	(4,820)	33,360,002
	<u>49,354,784</u>	<u>2,227,312</u>	<u>(326,080)</u>	<u>51,256,016</u>
Accumulated depreciation:				
Land improvements	(926,257)	(97,052)	-	(1,023,309)
Buildings and improvements	(3,392,207)	(177,393)	115,038	(3,454,562)
Machinery and equipment	(4,461,680)	(470,326)	131,769	(4,800,237)
Infrastructure	(16,596,083)	(1,064,175)	3,122	(17,657,136)
	<u>(25,376,227)</u>	<u>(1,808,946)</u>	<u>249,929</u>	<u>(26,935,244)</u>
Net capital assets being Depreciated	<u>23,978,557</u>	<u>418,366</u>	<u>(76,151)</u>	<u>24,320,772</u>
Net governmental capital assets	<u>\$26,957,758</u>	<u>\$ 2,120,517</u>	<u>\$ (171,387)</u>	<u>\$28,906,888</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 6--CAPITAL ASSETS. (continued)

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 12	\$ -	\$ -	\$ 12
Construction in progress	8,187	5,361	(8,187)	5,361
	<u>8,199</u>	<u>5,361</u>	<u>(8,187)</u>	<u>5,373</u>
Capital assets being Depreciated:				
Land improvements	427,423	-	-	427,423
Buildings and improvements	4,363,766	79,546	(11,773)	4,431,539
Machinery and equipment	2,036,931	88,757	-	2,125,688
Infrastructure	26,049,622	495,426	(24,003)	26,521,045
	<u>32,877,742</u>	<u>663,729</u>	<u>(35,776)</u>	<u>33,505,695</u>
Accumulated depreciation:				
Land improvements	(60,460)	(13,520)	-	(73,980)
Buildings and improvements	(1,296,560)	(130,274)	560	(1,426,274)
Machinery and equipment	(1,390,767)	(170,549)	-	(1,561,316)
Infrastructure	(9,962,146)	(495,776)	24,003	(10,433,919)
	<u>(12,709,933)</u>	<u>(810,119)</u>	<u>24,563</u>	<u>(13,495,489)</u>
Net capital assets being Depreciated	<u>20,167,809</u>	<u>(146,390)</u>	<u>(11,213)</u>	<u>20,010,206</u>
Net business-type capital assets	<u>\$20,176,008</u>	<u>\$ (141,029)</u>	<u>\$ (19,400)</u>	<u>\$20,015,579</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 80,605
Public safety	295,160
Public works	212,031
Highway, streets and lights	1,064,175
Parks and recreation	156,975
	<u>1,808,946</u>
Business-type activities:	
Water	207,423
Sewage	634,008
DART	78,217
	<u>\$ 919,648</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 7—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS.

The composition of interfund balances at June 30, 2005 is as follows:

	Interfund Receivable	Interfund Payable
Governmental Funds		
General Fund	\$ -	\$ 1,660,308
Special Revenue Funds		
Local Street Fund	828,307	-
Permanent Fund		
Perpetual Lot Care Fund	10,738	-
Internal Service Funds		
Equipment Fund	763,870	-
Business-type Funds		
Water	51,556	-
DART	5,837	-
Internal balances	<u>\$ 1,660,308</u>	<u>\$ 1,660,308</u>

The Interfund balances at June 30, 2005 represent routine and temporary cash flow assistance to the General Fund within the pooled cash and investment accounts until amounts are transferred from cash and investment accounts.

	Transfer In	Transfer Out
Governmental Funds		
General Fund	\$ 207,489	\$ -
Budget Stabilization Fund	-	207,489
Local Street Fund	525,000	-
General Debt Service Fund	53,790	-
1992 G.O. Debt Service Fund	125,000	-
Stores	55,500	-
General Fund		759,290
Building Authority Construction Fund	300,000	
D.P.W. Construction Fund	-	300,000
	<u>\$ 1,266,779</u>	<u>\$ 1,266,779</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 7—INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS. (continued)

The transfer from the Budget Stabilization Fund represents the transfer of unrestricted resources for expenditures for current operations in the General Fund.

The transfer from the General Fund to the Local Street Fund represents the transfer of unrestricted resources for current road projects; the transfers from the General Fund to the General Debt Services and 1992 G.O. Debt Service Funds represent funding of debt service payments; and the transfer from the General Fund to the Stores Fund represents cash flow assistance for the purpose of purchasing materials and supplies.

The transfer from the D.P.W. Construction Fund to the Building Authority Construction Fund represents cash flow assistance for the construction of a new building.

NOTE 8--LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Bond and contractual obligation activity can be summarized as follows:

	Balances, Jun 30, 2004	Additions	(Deductions)	Balances, Jun 30, 2005	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
1994 Alpena County sanitary sewage unlimited tax refunding bonds (contractual obligation): Amount of issue - \$2,705,000 Maturing through 2009 Interest rate ranges 2.80%-5.00% Principle maturity range \$175,000- \$195,000	\$ 915,000	\$ -	\$ (180,000)	\$ 735,000	\$ 175,000
2001 Building Authority Bonds: Amount of issue - \$400,000 Maturing through 2016 Interest rate ranges 4.00%-6.00% Principle maturity range \$20,000- \$50,000	380,000	-	(20,000)	360,000	25,000
2002 unlimited tax refunding bonds: Amount of issue - \$1,995,000 Maturing through 2012 Interest rate ranges 3.50%-4.20% Principle maturity range \$140,000- \$245,000	1,685,000	-	(165,000)	1,520,000	165,000

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 8--LONG-TERM DEBT. (continued)

	Balances, Jun 30, 2004	Additions	(Deductions)	Balances, Jun 30, 2005	Due Within One Year
2004 Building Authority Bonds:					
Amount of issue - \$1,800,000					
Maturing through 2030					
Interest rate ranges 3.10%-5.10%					
Principle maturity range \$25,000-\$125,000	\$ -	\$ 1,800,000	\$ -	\$ 1,800,000	\$ 25,000
Installment purchase agreements:					
2000 Land purchase bank loan:					
Amount of issue - \$880,000					
Maturing through 2014					
Interest rate ranges 3.75%					
Principle maturity range \$40,541	388,903	-	(50,541)	338,362	40,541
2004 Installment purchase:					
Amount of issue - \$39,255					
Maturing through 2006					
Principle maturity range \$13,085	26,170	-	(13,085)	13,085	13,085
Total bond and installment purchase obligations	3,395,073	1,800,000	(428,626)	4,766,447	443,626
Other long-term obligations:					
Compensated absences	424,925	285,705	(271,779)	438,851	264,845
Total governmental activities	<u>\$ 3,819,998</u>	<u>\$ 2,085,705</u>	<u>\$ (700,405)</u>	<u>\$ 5,205,298</u>	<u>\$ 708,471</u>
Business-type Activities					
1998 Water supply and sewage disposal system revenue bonds:					
Amount of issue - \$4,000,000					
Maturing through 2019					
Interest rate ranges 4.25%-6.25%					
Principle maturity range \$100,000-\$300,000	<u>\$ 3,500,000</u>	<u>\$ -</u>	<u>\$ (100,000)</u>	<u>\$ 3,400,000</u>	<u>\$ 150,000</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 8--LONG-TERM DEBT. (continued)

Year Ended June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 443,626	\$ 195,692	\$ 150,000	\$ 159,113
2007	475,541	177,238	150,000	149,737
2008	490,541	157,322	200,000	138,800
2009	530,541	135,926	200,000	126,300
2010	345,542	118,029	200,000	115,150
2011 through 2015	1,055,656	415,882	1,300,000	409,500
2016 through 2020	425,000	287,919	1,200,000	102,375
2021 through 2025	425,000	199,750	-	-
2026 through 2030	575,000	76,187	-	-
Total	<u>\$ 4,766,447</u>	<u>\$ 1,763,945</u>	<u>\$ 3,400,000</u>	<u>\$ 1,200,975</u>

Advance Refunding. On February 28, 2002, the City of Alpena issued \$1,995,000 in General Obligation Unlimited Tax Refunding Bonds with an average interest rate of 3.77% to advance refund \$1,925,000 of outstanding 1992 General Obligation Unlimited Tax Bonds with an average interest rate of 5.69%. The net proceeds of \$1,931,682 (after payment of \$70,700 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the advance-refunded portion of the 1992 General Obligation Unlimited Tax Bonds. As a result the 1992 bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group.

The City of Alpena advance refunded the 1992 General Obligation Unlimited Tax Bonds to reduce its total debt service payments for 2003 through 2012 by \$255,623 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$202,766.

NOTE 9--NET ASSET RESERVATIONS AND RESTRICTIONS.

Governmental Activities

Restricted for debt service

General debt	\$ 2,422
1992 G.O. debt	14,497
Building authority debt	<u>4,222</u>
	<u>21,141</u>

Restricted for capital outlay

Public safety facility construction	398,350
D.P.W. construction	623,429
Building authority construction	<u>620,049</u>
	<u>1,641,828</u>

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 9--NET ASSET RESERVATIONS AND RESTRICTIONS. (continued)

Business-type Activities

Restricted for debt service	
Water fund	\$ 179,250
Sewage fund	179,250
	<hr/>
	358,500
Restricted for capital outlay	
Water fund	363,622
Sewage fund	32,587
	<hr/>
	396,209

Fiduciary Funds

Held in trust for pension benefits and other purposes	
Pension trust fund	26,255,896
Employee health care fund	137,441
	<hr/>
	26,393,337

NOTE 10--BUILDING PERMIT REVENUES AND RELATED EXPENDITURES.

The State of Michigan Construction Code Act (Public Act 245 of 1999) requires that building activity be separated from other general fund activity effective January 1, 2000. The City of Alpena's fee structure is not intended to recover the full cost of the enforcing agency, therefore, it has not been segregated from the general fund. For the year ended June 30, 2005, the City of Alpena collected \$111,296 in building permit fees. For the same time period, the City expended \$123,137. The City subsidized the construction permit program with \$34,000.

NOTE 11--CONTINGENCIES AND CLAIMS.

The City of Alpena, like many municipalities, previously owned and operated a solid waste landfill. Should the Michigan Department of Natural Resources (MDNR) determine that environmental contamination exists, the City, as well as other parties, could be required to share in any associated clean-up costs. However, at this point in time, the City is not incurring nor expects to incur in the future any additional costs associated with this landfill.

Litigation. During the ordinary course of its operation, the City is a party to various claims, legal actions and complaints. The majority of these matters are covered by the City's Risk Management program. Those which are not covered involve construction contract claims.

In the opinion of the City's management and legal counsel, that while possible, it is not probable that the City will receive unfavorable rulings in the other lawsuits. These matters are not anticipated to have a material financial impact on the city.

NOTE 12--RISK MANAGEMENT.

The City of Alpena is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefits claims, and workers compensation coverage from the Michigan Municipal Workers Compensation Fund. We currently have general liability, excess liability, auto liability, trunk line liability, errors and omissions, physical damage (equipment, buildings and contents) through St. Paul Property and Liability Insurance, administrated through Arthur J. Gallagher & Company of Michigan, Incorporated.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 12--RISK MANAGEMENT. (continued)

Michigan municipal corporations in the State of Michigan established and created a trust fund, known as the Michigan Municipal Liability and Property Pool in accordance with the provisions of Section 7, 1951 P.A. 35, as amended by 1988 P.A. 36. The pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to local units and related local unit activities with the state. The City of Alpena became a member of the pool in January 1978 for workers compensation insurance and from December 1996 to December 2000 for liability and property coverage.

Arthur J. Gallagher & Company ("Gallagher") is one of the largest providers of brokerage and risk management services to Public entities. Gallagher plans and administers all types of insurance, reinsurance, risk management, and self-insurance programs through various specialized companies.

NOTE 13—DEFINED BENEFIT PENSION PLAN.

Plan Description. The City reporting entity participates in and administers one single-employer defined benefit pension plan - City of Alpena Employees' Retirement System. This plan covers substantially all full-time employees of the City. The system provides retirement, disability and death benefits to plan members and their beneficiaries. At December 31, 2004, the date of the most recent actuarial valuation, membership consisted of 102 retirees and beneficiaries currently receiving benefits, 5 terminated employees entitled to benefits but not yet receiving them, and 86 current active employees. Assets are held separately and may be used only for the payment of benefits to the members of the City's retirement plan. Actuarial valuations are performed annually. The plan does not issue a separate financial report.

Contribution Methods, Funding Policies, and Benefit Provisions. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

The following is a summary of contribution methods, funding policies, and benefit provisions:

Year established and governing authority	- 1945; City Council Ordinance
Determination of contribution requirements	- Actuarially determined
Employer	
General	- 0.00% of covered payroll
Police	- 0.00% of covered payroll
Fire	- 2.55% of covered payroll
Employee	
General Union	- 3.0% of the first \$4,800 of covered payroll plus 5.0% of covered payroll in excess of \$4,800
General Non-Union and Deputy Police Chief	- 1.0% of covered payroll
Deputy Fire Chief	- 2.0% of covered payroll
Patrolmen	- 6.0% of covered payroll
Command Officers	- 6.0% of covered payroll
Firemen	- 3.5% of covered payroll

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 13—DEFINED BENEFIT PENSION PLAN. (continued)

Determination of benefit provision

General Union - Clerical	- 1.3% of the first \$4,800 of covered payroll plus 1.8% of covered payroll in excess of \$4,800
--------------------------	--

General Union - DPW	- 1.3% of the first \$4,800 of covered payroll plus 2.0% of covered payroll in excess of \$4,800
---------------------	--

Non-Union	- 2.25% of covered payroll through 7/1/2003, 2.50% thereafter
Deputy Police Chief	- 2.50% of covered payroll through 7/1/2003, 2.78% thereafter

Determination of benefit provision (continued)

Deputy Fire Chief	- 2.50% to 6/4/01, plus 2.4% after 6/4/01 to 7/1/03, plus 2.67% after 7/1/03
Patrolmen	- 2.40% of covered payroll through 7/1/2002, 3.00% thereafter Maximum benefit is 85% of Final Average Compensation
Command Officers	- 2.50% of covered payroll through 7/1/2002, 3.00% thereafter Maximum benefit is 85% of Final Average Compensation
Firemen	- 2.50% of covered payroll through 7/1/2001, 3.00% thereafter

Funding of administrative costs	- Investment earnings
---------------------------------	-----------------------

Period required to vest	- 10 years, or 5 years for General Non-union, Deputy Fire Chief and Deputy Police Chief.
-------------------------	--

Post-retirement benefit increases	- City Council Ordinance provides a Cost of living adjustments only after employee has been retired for 5 years and is based on a set formula.
-----------------------------------	--

Eligibility for Distribution

General Non-Union	- Age 60 with 5 years, or age 55 with 15 years
-------------------	--

Fire	- Age 55 with 10 years of service
Police	- Age 55 with 10 years of service Or 25 years of service regardless Of age. (30 for Deputy Police Chief)
General Union	- Age 60 with 10 years of service
DWP Union	- Age 60 with 10 years and effective 7/11/99, age 55 with 15 years of service.

Provisions for

Disability benefits	- Yes
Death benefits	- Yes

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 13—DEFINED BENEFIT PENSION PLAN. (continued)

Annual Pension Cost. For the year ended December 31, 2004, the City's annual pension cost of \$ 129,008 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry age cost method. Significant actuarial assumptions used include (1) a 7.0% investment rate of return; (2) projected salary increases of 4.5%-8.3% for general employees and 4.5%-7.50% for police and fire employees with no annual cost of living adjustments. The projected salary increases include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payrolls on an open basis. The remaining amortization period is 10 years.

Trend Information.

<u>Valuation Year Ended December 31</u>	<u>Annual Pension Cost</u>	<u>Percent Contributed</u>
2002	\$ 25,419	100%
2003	16,606	100%
2004	129,008	100%

Net Pension Obligation. There were no net pension obligations for the plan.

Reserves. The balance in the plan's legally required reserves at December 31, 2004 and December 31, 2003 respectively was \$27,063,597 and \$27,117,521.

There are no assets legally reserved for purposes other than the payment of plan member benefits. The plan held no individual investments (other than U.S. government obligations) whose market value exceeds five percent or more of net assets available for benefits. There are no long-term contracts for contributions. The City has no financial derivative instruments or products as a part of their pension investment portfolio.

NOTE 14--POSTRETIREMENT BENEFIT DISCLOSURES.

In addition to the pension benefits described in Note 13, the City of Alpena provides postretirement health care and life insurance benefits, in accordance with council resolution for non-union employees and negotiated labor agreements for union employees, to all covered employees who retire from the City. The City provides a City-paid \$2,000 life insurance policy for administrative, police, and fire department retirees.

There are currently 100 retirees; 57 are eligible to receive health care benefits and 57 are eligible to receive life insurance benefits. Expenditures for post retirement benefits are recognized when incurred by the City. During the year, the City's share of expenditures of \$113,738 was recognized for post retirement health care and \$684 for retiree life insurance.

NOTE 15--DEFERRED COMPENSATION PLAN.

The City of Alpena offers all employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof of the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The Administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement 32, plan balances and activities are not reflected in the City of Alpena's financial statements.

City of Alpena

NOTES TO FINANCIAL STATEMENTS

NOTE 16--COMPONENT UNIT DISCLOSURES.

Capital Assets. The following table summarizes the changes in the Downtown Development Authority's capital assets:

	Balance June 30, 2004	Additions	Retirements	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 63,156	\$ -	\$ -	\$ 63,156
Construction in progress	-	14,000	-	14,000
	<u>63,156</u>	<u>14,000</u>	<u>-</u>	<u>77,156</u>
Capital assets being depreciated:				
Land improvements	78,128	-	-	78,128
Buildings and improvements	6,230	-	-	6,230
Machinery and equipment	375	-	-	375
	<u>84,733</u>	<u>-</u>	<u>-</u>	<u>84,733</u>
Accumulated depreciation:				
Land improvements	(27,031)	(4,020)	-	(31,051)
Buildings and improvements	(6,230)	-	-	(6,230)
Machinery and equipment	(375)	-	-	(375)
	<u>(33,636)</u>	<u>(4,020)</u>	<u>-</u>	<u>(37,656)</u>
Net capital assets being Depreciated	<u>51,097</u>	<u>(4,020)</u>	<u>-</u>	<u>47,077</u>
Net component unit assets	<u>\$ 114,253</u>	<u>\$ 9,980</u>	<u>\$ -</u>	<u>\$ 124,233</u>

Depreciation expense was charged to programs of the component units as follows:

Downtown Development Authority No. 2	<u>\$ 4,020</u>
--------------------------------------	-----------------

The EDC had no fixed assets.

Long-Term Debt. Neither the Downtown Development Authority or the Economic Development Corporation had any long-term debt obligations at June 30, 2005.

City of Alpena

REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
Budgetary fund balance, July 1	\$ 2,019,285	\$ 2,019,285	\$ 2,019,285	\$ -
Resources (inflows):				
Taxes	4,059,112	4,099,927	4,104,605	4,678
Licenses and permits	127,600	140,400	154,869	14,469
State revenue	1,891,470	1,948,880	2,038,897	90,017
Federal revenue	51,500	65,200	77,473	12,273
Local grant revenue	692,888	583,343	580,154	(3,189)
Charges for services	1,221,060	1,136,750	1,168,492	31,742
Investment income and rents	150,500	135,900	163,634	27,734
Fines and forfeitures	20,500	36,000	39,050	3,050
Other	298,610	330,500	238,619	(91,881)
Transfers from other funds	200,000	206,000	207,489	1,489
Amounts available for appropriation	10,732,525	10,702,185	10,792,567	90,382
Charges to appropriation (outflows):				
General Government				
General government	1,781,360	1,832,282	1,703,935	128,347
Building authority	36,525	36,525	36,525	-
Cemetery	287,400	284,475	277,121	7,354
	2,105,285	2,153,282	2,017,581	135,701
Public safety				
Police	1,535,450	1,533,960	1,531,429	2,531
Fire	1,405,850	1,399,005	1,382,630	16,375
Ambulance	1,154,605	1,007,815	989,480	18,335
Building inspection	120,290	120,085	123,137	(3,052)
	4,216,195	4,060,865	4,026,676	34,189
Public works				
Public works	909,332	929,034	805,211	123,823
Highways, streets and lights	221,255	234,635	155,997	78,638
	1,130,587	1,163,669	961,208	202,461
Parks and recreation	1,026,992	1,027,065	969,685	57,380
Transfers to other funds	759,290	764,680	759,290	5,390
Total charges to appropriations	9,238,349	9,169,561	8,734,440	435,121
Budgetary fund balance, June 30	\$ 1,494,176	\$ 1,532,624	\$ 2,058,127	\$ 525,503

City of Alpena

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS**

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
MAJOR STREET FUND				
Budgetary fund balance, July 1	\$ 459,009	\$ 459,009	\$ 459,009	\$ -
Resources (inflows):				
State revenue	993,326	1,121,350	1,222,750	101,400
Charges for services	26,190	6,200	2,675	(3,525)
Investment income and rents	13,000	11,000	6,806	(4,194)
Amounts available for appropriation	1,491,525	1,597,559	1,691,240	93,681
Charges to appropriation (outflows):				
Public Works				
Administration and engineering	105,355	93,670	69,560	24,110
Construction	853,450	827,290	799,105	28,185
Maintenance	401,270	400,535	319,415	81,120
Maintenance - trunkline	72,900	84,200	83,146	1,054
Total charges to appropriations	1,432,975	1,405,695	1,271,226	134,469
Budgetary fund balance, June 30	\$ 58,550	\$ 191,864	\$ 420,014	\$ 228,150
LOCAL STREET FUND				
Budgetary fund balance, July 1	\$ 1,028,853	\$ 1,028,853	\$ 1,028,853	\$ -
Resources (inflows):				
State revenue	378,990	246,640	243,239	(3,401)
Charges for services	14,400	44,000	38,207	(5,793)
Investment income and rents	13,000	18,000	29,962	11,962
Other	7,000	2,000	1,810	(190)
Transfer from General Fund	525,000	525,000	525,000	-
Amounts available for appropriation	1,967,243	1,864,493	1,867,071	2,578
Charges to appropriation (outflows):				
Public Works				
Administration and engineering	156,500	160,600	158,425	2,175
Construction	585,085	347,900	319,552	28,348
Maintenance	346,200	326,300	281,921	44,379
Total charges to appropriations	1,087,785	834,800	759,898	74,902
Budgetary fund balance, June 30	\$ 879,458	\$ 1,029,693	\$ 1,107,173	\$ 77,480

City of Alpena

**REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - MAJOR FUNDS**

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
BUDGET STABILIZATION FUND				
Budgetary fund balance, July 1	\$ 370,000	\$ 370,000	\$ 370,000	\$ -
Resources (inflows):				
Investment income and rents	5,000	6,000	7,489	1,489
Amounts available for appropriation	375,000	376,000	377,489	1,489
Charges to appropriation (outflows):				
Transfer to General Fund	200,000	206,000	207,489	(1,489)
Total charges to appropriations	200,000	206,000	207,489	(1,489)
Budgetary fund balance, June 30	<u>\$ 175,000</u>	<u>\$ 170,000</u>	<u>\$ 170,000</u>	<u>\$ -</u>
BUILDING AUTHORITY CONSTRUCTION FUND				
Budgetary fund balance, July 1	\$ 39,365	\$ 39,365	\$ 39,365	\$ -
Resources (inflows):				
Investment income and rents	1,000	8,000	7,936	(64)
Bond proceeds	1,800,000	1,800,000	1,800,000	-
Transfers from other funds	900,000	600,000	300,000	(300,000)
Amounts available for appropriation	2,740,365	2,447,365	2,147,301	(300,064)
Charges to appropriation (outflows):				
Capital outlay	2,230,000	1,688,513	1,527,252	161,261
Total charges to appropriations	2,230,000	1,688,513	1,527,252	161,261
Budgetary fund balance, June 30	<u>\$ 510,365</u>	<u>\$ 758,852</u>	<u>\$ 620,049</u>	<u>\$ (138,803)</u>

City of Alpena

**REQUIRED SUPPLEMENTAL INFORMATION
DEFINED BENEFIT PENSION SYSTEM TRUST**

June 30, 2005

SCHEDULE OF FUNDING PROGRESS

The pension systems schedule of funding progress for the past six years is as follows:

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a) / (b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a) / (c) Underfunded - (Overfunded)
12/31/99	\$ 25,702,665	\$ 19,527,869	\$ (6,174,796)	131.6%	\$ 3,290,946	-(187.6%)
12/31/00	28,936,377	21,330,240	(7,606,137)	135.7%	3,551,225	-(214.2%)
12/31/01	30,102,190	22,096,003	(8,006,187)	136.2%	3,432,443	-(233.3%)
12/31/02	30,808,443	22,776,542	(8,031,901)	135.3%	3,538,353	-(227.0%)
12/31/03	30,484,524	22,927,430	(7,557,094)	133.0%	3,554,393	-(212.6%)
12/31/04	28,762,151	23,723,612	(5,038,539)	121.2%	3,668,026	-(137.4%)

SCHEDULE OF EMPLOYER CONTRIBUTIONS

The pension systems schedule of employer contributions for the past six years is as follows:

Actuarial Valuation Date	Contribution Rates as a Percentage of Valuation Payroll	Computed Contribution Based on Projected Valuation Payroll	Actual Contribution	Percentage Contributed
12/31/99	3.21%	\$ 115,343	\$ 122,427	100.0%
12/31/00	0.55%	18,965	25,910	100.0%
12/31/01	0.00%	-	-	100.0%
12/31/02	0.71%	25,419	25,419	100.0%
12/31/03	0.45%	16,606	16,606	100.0%
12/31/04	0.75%	27,790	33,151	100.0%

City of Alpena

General Fund

Description of Fund

The General Fund is used to account for all financial transactions not properly accounted for in another fund. The transactions relating to the general governmental activities of the City, which are financed by property tax levies, by distribution of State revenues, and by revenues from various municipal activities and services, are recorded in this fund. Costs for City administration are accounted for in this fund. Other operating funds make contributions to the General Fund for overhead or administrative costs which are allocated to each fund.

City of Alpena

General Fund

COMPARATIVE BALANCE SHEET

	June 30,	
	2005	2004
ASSETS		
Cash and cash equivalents	\$ 439,082	\$ 413,158
Investments	3,158,231	3,772,226
Accounts receivable	243,334	221,523
Special assessments receivable	195,071	160,534
Due from other governmental units	247,227	232,807
Taxes receivable	3,830	12,888
Interest receivable	35,859	16,220
Total assets	<u>\$ 4,322,634</u>	<u>\$ 4,829,356</u>
LIABILITIES AND FUND EQUITY		
Liabilities		
Accounts payable	\$ 251,373	\$ 245,969
Accrued payroll	143,140	122,412
Due to other funds	1,660,308	2,256,520
Due to component units	10,785	11,748
Deferred revenue	198,901	173,422
Total liabilities	<u>2,264,507</u>	<u>2,810,071</u>
Fund equity		
Fund balances		
Unreserved		
Undesignated	2,058,127	2,019,285
Total fund equity	<u>2,058,127</u>	<u>2,019,285</u>
Total liabilities and fund equity	<u>\$ 4,322,634</u>	<u>\$ 4,829,356</u>

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

	Year Ended June 30, 2005			
	Budgeted Amounts		Actual	2004
	Original	Final	Amounts	Actual
REVENUES				
TAXES				
Current property	\$ 4,003,112	\$ 4,042,927	\$ 4,050,805	\$ 3,857,414
Other	56,000	57,000	53,800	54,223
	4,059,112	4,099,927	4,104,605	3,911,637
LICENSES AND PERMITS	127,600	140,400	154,869	139,405
STATE REVENUE				
Sales tax	1,415,120	1,425,700	1,424,107	1,482,054
Grants	476,350	523,180	614,790	299,391
	1,891,470	1,948,880	2,038,897	1,781,445
FEDERAL REVENUE	51,500	65,200	77,473	82,722
LOCAL GRANT REVENUE	692,888	583,343	580,154	534,089
CHARGES FOR SERVICES				
Ambulance	586,000	510,000	555,340	596,332
Cemetery	62,750	57,200	57,812	52,797
Sidewalks and trees	63,000	60,340	50,218	45,569
Water department	89,400	89,400	89,400	86,800
Sewage department	106,090	106,090	106,090	103,000
Stores	42,750	42,750	42,750	41,500
Perpetual lot care	34,000	34,000	29,831	34,439
Equipment	198,520	198,520	198,520	192,780
Retirement	23,000	23,000	23,000	22,300
Other	15,550	15,450	15,531	15,235
	1,221,060	1,136,750	1,168,492	1,190,752
INVESTMENT INCOME AND RENTS	150,500	135,900	163,634	129,188
FINES AND FORFEITURES	20,500	36,000	39,050	31,621
OTHER				
Downtown Development Authority No.2	7,500	7,500	6,500	10,000
Reimbursements and refunds	51,000	58,380	93,518	125,964
Sale of assets	-	11,970	11,107	125,000
Miscellaneous	240,110	252,650	127,494	119,890
	298,610	330,500	238,619	380,854
Total revenues	8,513,240	8,476,900	8,565,793	8,181,713

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL -Continued**

	Year Ended June 30, 2005			
	Budgeted Amounts		Actual Amounts	2004 Actual
	Original	Final		
EXPENDITURES				
GENERAL GOVERNMENT				
GENERAL GOVERNMENT				
Salaries and wages	\$ 664,960	\$ 655,000	\$ 692,371	\$ 668,742
Employee benefits	245,380	234,500	224,734	212,410
Supplies	62,500	62,500	60,505	64,152
Contracted services	132,900	119,350	99,822	110,657
Continuing education	22,700	26,000	25,997	21,044
Public relations	44,000	43,000	42,382	69,635
Insurance	10,000	13,000	12,888	69,836
Utilities	36,500	34,800	33,779	34,975
Repairs and maintenance	26,000	31,000	26,469	21,867
Equipment rental	156,000	200,632	200,516	151,679
Rental rehabilitation	169,700	170,400	164,156	156,671
Community Events Center	51,420	49,300	51,456	47,448
Miscellaneous	112,800	117,800	51,204	84,136
Capital outlay	46,500	75,000	17,656	18,252
	<u>1,781,360</u>	<u>1,832,282</u>	<u>1,703,935</u>	<u>1,731,504</u>
BUILDING AUTHORITY				
Lease - Lakeside	36,525	36,525	36,525	37,525
	<u>36,525</u>	<u>36,525</u>	<u>36,525</u>	<u>37,525</u>
CEMETERY				
Salaries and wages	63,900	65,000	64,028	64,422
Employee benefits	25,725	31,550	29,093	21,659
Supplies	3,400	3,400	2,609	2,714
Contracted services	300	300	392	428
Continuing education	500	450	656	419
Insurance	3,500	2,375	2,372	3,244
Utilities	8,250	8,250	9,322	9,444
Repairs and maintenance	8,800	7,500	4,568	6,270
Equipment rental	22,925	22,910	21,294	20,198
Miscellaneous	100	100	147	182
Capital outlay	150,000	142,640	142,640	-
	<u>287,400</u>	<u>284,475</u>	<u>277,121</u>	<u>128,980</u>
Total General Government	<u>2,105,285</u>	<u>2,153,282</u>	<u>2,017,581</u>	<u>1,898,009</u>

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

EXPENDITURES (continued)	Year Ended June 30, 2005				2004 Actual
	Budgeted Amounts		Actual Amounts		
	Original	Final			
PUBLIC SAFETY					
POLICE					
Salaries and wages	\$ 953,000	\$ 935,000	\$ 924,314	\$ 920,455	
Employee benefits	276,070	293,960	291,059	259,190	
Supplies	18,700	28,700	24,428	16,097	
Contracted services	54,050	54,100	51,838	44,279	
Continuing education	12,750	12,750	11,102	11,545	
Insurance	47,000	38,050	38,043	42,161	
Utilities	34,300	34,300	35,591	32,448	
Repairs and maintenance	56,800	54,800	61,049	52,292	
Equipment rental	31,880	36,800	36,335	30,825	
Miscellaneous	3,500	3,500	3,916	3,318	
Capital outlay	47,400	42,000	53,754	17,294	
	<u>1,535,450</u>	<u>1,533,960</u>	<u>1,531,429</u>	<u>1,429,904</u>	
FIRE					
Salaries and wages	632,300	635,000	620,079	603,001	
Employee benefits	215,500	216,505	218,574	203,291	
Supplies	47,750	45,950	72,472	30,830	
Contracted services	21,000	6,000	5,086	4,184	
Continuing education	6,400	6,000	5,441	6,174	
Insurance	28,900	23,000	23,018	26,306	
Utilities	15,000	15,000	15,792	14,191	
Repairs and maintenance	22,500	24,000	23,792	18,965	
Hydrant rental	60,000	60,000	60,000	59,600	
Equipment rental	177,950	190,840	190,523	172,803	
Miscellaneous	4,000	4,900	4,888	4,517	
Capital outlay	174,550	171,810	142,965	7,162	
	<u>1,405,850</u>	<u>1,399,005</u>	<u>1,382,630</u>	<u>1,151,024</u>	
AMBULANCE					
Salaries and wages	627,000	627,000	616,633	602,510	
Employee benefits	213,750	213,560	210,842	197,343	
Supplies	10,800	10,600	10,193	11,798	
Contracted services	91,000	58,000	57,125	63,982	
Continuing education	6,750	6,750	6,198	6,307	
Insurance	31,400	31,360	31,359	28,563	
Utilities	14,500	14,500	15,697	13,911	
Repairs and maintenance	23,100	22,100	20,774	24,646	
Equipment rental	16,305	15,045	14,906	15,894	
Miscellaneous	4,000	4,400	4,359	4,433	
Capital outlay	116,000	4,500	1,394	3,841	
	<u>1,154,605</u>	<u>1,007,815</u>	<u>989,480</u>	<u>973,228</u>	

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL - Continued**

	Year Ended June 30, 2005			
	Budgeted Amounts		Actual Amounts	2004 Actual
	Original	Final		
EXPENDITURES (continued)				
BUILDING INSPECTION				
Salaries and wages	\$ 65,600	\$ 65,600	\$ 68,638	\$ 65,286
Employee benefits	30,730	31,230	31,152	27,751
Supplies	3,500	2,000	3,514	6,735
Contracted services	1,800	2,300	2,012	2,111
Continuing education	1,800	1,800	1,811	1,391
Insurance	2,160	1,980	1,979	1,961
Utilities	1,900	1,900	1,710	1,739
Repairs and maintenance	1,700	1,700	1,345	1,141
Equipment rental	6,400	6,875	6,871	6,119
Office rent	4,000	4,000	3,716	3,716
Miscellaneous	700	700	389	527
	<u>120,290</u>	<u>120,085</u>	<u>123,137</u>	<u>118,477</u>
Total Public Safety	<u>4,216,195</u>	<u>4,060,865</u>	<u>4,026,676</u>	<u>3,672,633</u>
PUBLIC WORKS				
PUBLIC WORKS				
Salaries and wages	168,100	160,000	154,115	153,215
Employee benefits	61,480	51,974	36,640	40,061
Supplies	35,500	31,000	25,353	29,106
Contracted services	80,900	77,100	76,217	78,254
Continuing education	2,000	1,000	357	868
Insurance	26,600	35,185	34,857	23,590
Utilities	32,000	32,000	38,883	30,810
Repairs and maintenance	22,500	20,000	16,226	119,954
Equipment rental	91,600	103,275	103,276	102,916
Miscellaneous	17,652	25,000	12,094	15,919
Capital outlay	371,000	392,500	307,193	334,917
	<u>909,332</u>	<u>929,034</u>	<u>805,211</u>	<u>929,610</u>
HIGHWAYS, STREETS AND LIGHTS				
Salaries and wages	13,900	20,200	24,334	14,634
Employee benefits	9,485	9,995	14,798	8,356
Supplies	100	100	42	577
Contracted services	23,000	15,000	8,975	12,715
Insurance	1,070	740	742	965
Utilities	73,000	73,000	71,447	70,071
Repairs and maintenance	20,000	23,000	19,534	21,193
Equipment rental	8,240	15,000	16,125	7,957
Capital outlay	72,460	77,600	-	1,597
	<u>221,255</u>	<u>234,635</u>	<u>155,997</u>	<u>138,065</u>
Total Public Works	<u>1,130,587</u>	<u>1,163,669</u>	<u>961,208</u>	<u>1,067,675</u>

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL**

	Year Ended June 30, 2005			
	Budgeted Amounts		Actual Amounts	2004 Actual
	Original	Final		
EXPENDITURES (continued)				
PARKS AND RECREATION				
Salaries and wages	\$ 159,000	\$ 152,000	\$ 158,175	\$ 147,180
Employee benefits	58,140	62,155	58,080	54,954
Supplies	3,700	4,300	3,827	2,831
Contracted services	18,300	20,000	19,341	22,153
Continuing education	100	100	210	153
City Band	11,000	11,000	11,000	11,000
Community Events Center	6,000	6,000	5,544	1,964
Advertising	4,000	3,000	1,843	3,015
Insurance	26,000	26,290	26,288	23,535
Utilities	17,000	21,200	20,801	17,739
Repairs and maintenance	100,050	109,000	103,841	96,412
Equipment rental	128,750	155,000	166,442	148,485
Miscellaneous	47,500	47,400	47,229	47,317
Capital outlay	447,452	409,620	347,064	161,773
	<u>1,026,992</u>	<u>1,027,065</u>	<u>969,685</u>	<u>738,511</u>
Total expenditures	<u>8,479,059</u>	<u>8,404,881</u>	<u>7,975,150</u>	<u>7,376,828</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>34,181</u>	<u>72,019</u>	<u>590,643</u>	<u>804,885</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds:				
Budget Stabilization Fund	200,000	206,000	207,489	190,045
	<u>200,000</u>	<u>206,000</u>	<u>207,489</u>	<u>190,045</u>
Transfers to other funds:				
Local Street Fund	(525,000)	(525,000)	(525,000)	(825,000)
General Debt Service Fund	(53,790)	(59,180)	(53,790)	(120,050)
1992 G.O. Debt Service Fund	(125,000)	(125,000)	(125,000)	(125,000)
D.P.W. Construction Fund	-	-	-	(41,600)
Stores Fund	(55,500)	(55,500)	(55,500)	(55,500)
	<u>(759,290)</u>	<u>(764,680)</u>	<u>(759,290)</u>	<u>(1,167,150)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(559,290)</u>	<u>(558,680)</u>	<u>(551,801)</u>	<u>(977,105)</u>

City of Alpena

General Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENDITURES AND FUND BALANCES
- BUDGET AND ACTUAL - Continued**

	Year Ended June 30, 2005			
	Budgeted Amounts		Actual	2004
	Original	Final	Amounts	Actual
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	\$ (525,109)	\$ (486,661)	\$ 38,842	\$ (172,220)
FUND BALANCES, beginning of year	2,019,285	2,019,285	2,019,285	2,191,505
FUND BALANCES, end of year	\$ 1,494,176	\$ 1,532,624	\$ 2,058,127	\$ 2,019,285

City of Alpena

Nonmajor Governmental Funds

Description of Funds

Debt Service Funds

Debt Service Funds are used to record the funding and payment of principal and interest on debt.

General Debt Service Fund. This fund is used to record the servicing of the City's 1994 tax refunding bonds.

2002 G.O. Debt Service Fund. This fund is used to record the servicing of the City's 1992 general obligation bonds and the subsequent servicing of the 2002 general obligation unlimited tax refunding bonds.

Building Authority Debt Fund. This fund is used to record the servicing of the Building Authority of the City of Alpena debt.

Capital Project Funds

Capital Project Funds are used to record the acquisition and construction of major capital facilities other than those financed by proprietary fund operations.

Public Safety Facility Construction Fund. This fund is used to record renovation projects on the City Public Safety Facilities.

DPW Construction Fund. This fund is used to record construction activity of the DPW.

PERMANENT FUND

Permanent funds report resources that are legally restricted to the extent that only earnings, and not principal may be used to support operations.

Perpetual Lot Care. This fund is used to record transactions relative to perpetual care deposits in order to cover the cost of cemetery perpetual care services.

City of Alpena

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005

	NonMajor Debt Service Funds		
	General Debt Service	2002 G.O. Debt Service	Building Authority Debt
ASSETS			
Pooled cash and investments	\$ 2,422	\$ 14,497	\$ -
Cash and cash equivalents	-	-	4,222
Investments	-	-	-
Receivables (net of allowance for uncollectibles)	-	-	-
Due from other funds	-	-	-
Total assets	<u>\$ 2,422</u>	<u>\$ 14,497</u>	<u>\$ 4,222</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Reserved for debt service	2,422	14,497	4,222
Reserved for capital outlay	-	-	-
Unreserved	-	-	-
Unreserved, reported in: Permanent fund	-	-	-
Total fund balances	<u>2,422</u>	<u>14,497</u>	<u>4,222</u>
Total liabilities and fund balances	<u>\$ 2,422</u>	<u>\$ 14,497</u>	<u>\$ 4,222</u>

NonMajor Capital Project Funds		Permanent Fund	Total
Public Safety			Nonmajor
Facility	D.P.W.	Perpetual	Governmental
Construction	Construction	Lot Care	Funds
\$ 398,350	\$ 623,429	\$ -	\$ 1,038,698
-	-	63,344	67,566
-	-	705,844	705,844
-	-	10,287	10,287
-	-	10,738	10,738
<u>\$ 398,350</u>	<u>\$ 623,429</u>	<u>\$ 790,213</u>	<u>\$ 1,833,133</u>
\$ -	\$ -	\$ -	\$ -
-	-	-	-
-	-	-	21,141
398,350	623,429	-	1,021,779
-	-	-	-
-	-	790,213	790,213
398,350	623,429	790,213	1,833,133
<u>\$ 398,350</u>	<u>\$ 623,429</u>	<u>\$ 790,213</u>	<u>\$ 1,833,133</u>

City of Alpena

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2005

	NonMajor Debt Service Funds		
	General Debt Service	2002 G.O. Debt Service	Building Authority Debt
REVENUES			
Taxes	\$ 221,456	\$ 110,728	\$ -
Charges for services	-	-	-
Investment income and rents	1,413	958	36,541
Other	-	-	-
Total revenues	222,869	111,686	36,541
EXPENDITURES			
Current operations			
General government	-	-	-
Capital outlay	-	-	-
Debt service			
Principal retirement	230,541	165,000	20,000
Interest and fees	55,330	61,553	66,419
Total expenditures	285,871	226,553	86,419
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(63,002)	(114,867)	(49,878)
OTHER FINANCING SOURCES (USES)			
Bond and notes payable proceeds	-	-	-
Transfers from other funds	53,790	125,000	54,000
Transfers to other funds	-	-	-
Total other financing sources (uses)	53,790	125,000	54,000
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(9,212)	10,133	4,122
FUND BALANCES, beginning of the year	11,634	4,364	100
FUND BALANCES, end of the year	\$ 2,422	\$ 14,497	\$ 4,222

NonMajor Capital Project Funds		Permanent Fund	Total
Public Safety			Nonmajor
Facility	D.P.W.	Perpetual	Governmental
Construction	Construction	Lot Care	Funds
\$ -	\$ -	\$ -	\$ 332,184
-	-	12,090	12,090
8,569	18,237	19,582	85,300
-	7,734	3,712	11,446
8,569	25,971	35,384	441,020
-	-	30,008	30,008
57,777	12	-	57,789
-	-	-	415,541
-	-	-	183,302
57,777	12	30,008	686,640
(49,208)	25,959	5,376	(245,620)
-	-	-	-
-	-	-	232,790
-	(300,000)	-	(300,000)
-	(300,000)	-	(67,210)
(49,208)	(274,041)	5,376	(312,830)
447,558	897,470	784,837	2,145,963
\$ 398,350	\$ 623,429	\$ 790,213	\$ 1,833,133

City of Alpena

**OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - NONMAJOR FUNDS**

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
GENERAL DEBT SERVICE				
Budgetary fund balance, July 1	\$ 11,634	\$ 11,634	\$ 11,634	\$ -
Resources (inflows):				
Taxes	221,456	221,456	221,456	-
Investment income and rents	2,000	1,600	1,413	(187)
Transfers from other funds	67,600	59,180	53,790	(5,390)
Amounts available for appropriation	302,690	293,870	288,293	(5,577)
Charges to appropriation (outflows):				
Debt service				
Principal retirement	220,540	230,541	230,541	-
Interest and fees	53,930	49,314	55,330	(6,016)
Total charges to appropriations	274,470	279,855	285,871	(6,016)
Budgetary fund balance, June 30	<u>\$ 28,220</u>	<u>\$ 14,015</u>	<u>\$ 2,422</u>	<u>\$ (11,593)</u>
2002 G.O. DEBT SERVICE				
Budgetary fund balance, July 1	\$ 4,364	\$ 4,364	\$ 4,364	\$ -
Resources (inflows):				
Taxes	110,728	110,730	110,728	(2)
Investment income and rents	1,200	900	958	58
Transfers from other funds	125,000	125,000	125,000	-
Amounts available for appropriation	241,292	240,994	241,050	56
Charges to appropriation (outflows):				
Debt service				
Principal retirement	165,000	165,000	165,000	-
Interest and fees	61,905	61,905	61,553	352
Total charges to appropriations	226,905	226,905	226,553	352
Budgetary fund balance, June 30	<u>\$ 14,387</u>	<u>\$ 14,089</u>	<u>\$ 14,497</u>	<u>\$ 408</u>

City of Alpena

**OTHER SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE - NONMAJOR FUNDS**

Year Ended June 30, 2005

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Favorable
				(Unfavorable)
BUILDING AUTHORITY DEBT				
Budgetary fund balance, July 1	\$ 100	\$ 100	\$ 100	\$ -
Resources (inflows):				
Investment income and rents	36,525	36,525	36,541	16
Transfers from other funds	115,313	54,000	54,000	-
Amounts available for appropriation	151,938	90,625	90,641	16
Charges to appropriation (outflows):				
Debt service				
Principal retirement	45,000	20,000	20,000	-
Interest and fees	106,838	69,983	66,419	3,564
Total charges to appropriations	151,838	89,983	86,419	3,564
Budgetary fund balance, June 30	\$ 100	\$ 642	\$ 4,222	\$ 3,580

City of Alpena

Internal Service Funds

Description of Funds

Internal Service Funds are used to account for the financing of special activities or services performed by a designated unit within the City for other units of the City. These funds are supported entirely by the sale of goods or services to other funds.

Equipment Fund. This fund is used to account for the rental charges of City owned equipment to other City departments.

Stores Fund. This fund is used to account for the movement of stockpiled materials and supplies.

City of Alpena

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

June 30, 2005

	<u>Equipment</u>	<u>Stores</u>	<u>Totals</u>
ASSETS			
Current assets			
Pooled cash and investments	\$ 281,231	\$ 125,579	\$ 406,810
Investments	1,603,187	-	1,603,187
Receivables (net of allowance for uncollectible accounts)	48,019	-	48,019
Internal balances	763,870	-	763,870
Inventories	-	172,896	172,896
Prepaid items	4,075	-	4,075
Total current assets	<u>2,700,382</u>	<u>298,475</u>	<u>2,998,857</u>
Noncurrent assets			
Capital assets not being depreciated	2,272	-	2,272
Capital assets, net of accumulated depreciation	1,136,690	-	1,136,690
Total noncurrent assets	<u>1,138,962</u>	<u>-</u>	<u>1,138,962</u>
Total assets	<u>\$ 3,839,344</u>	<u>\$ 298,475</u>	<u>\$ 4,137,819</u>
LIABILITIES			
Accounts payable	\$ 7,349	\$ -	\$ 7,349
Accrued payroll	4,605	-	4,605
Bonds and notes payable - current portion	13,085	-	13,085
Total liabilities	<u>25,039</u>	<u>-</u>	<u>25,039</u>
NET ASSETS			
Invested in capital assets, net of related debt	1,125,877	-	1,125,877
Unrestricted	2,688,428	298,475	2,986,903
Total net assets	<u>\$ 3,814,305</u>	<u>\$ 298,475</u>	<u>\$ 4,112,780</u>

City of Alpena

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS**

Year ended June 30, 2005

	Equipment	Stores	Totals
OPERATING REVENUES			
Charges for services	\$ 1,097,971	\$ 132,742	\$ 1,230,713
Total operating revenues	<u>1,097,971</u>	<u>132,742</u>	<u>1,230,713</u>
OPERATING EXPENSES			
Salaries and wages	130,095	-	130,095
Employee benefits	73,882	-	73,882
Administrative services	198,520	42,750	241,270
Insurance	46,527	-	46,527
Maintenance	141,044	-	141,044
Depreciation	324,712	-	324,712
Supplies and other	72,426	167,200	239,626
Total operating expenses	<u>987,206</u>	<u>209,950</u>	<u>1,197,156</u>
OPERATING INCOME (LOSS)	110,765	(77,208)	33,557
NONOPERATING REVENUES (EXPENSES)			
Investment income and rents	32,650	-	32,650
Donations	3,000	-	3,000
Gain on sale of assets	7,079	-	7,079
	<u>42,729</u>	<u>-</u>	<u>42,729</u>
INCOME (LOSS) BEFORE TRANSFERS	153,494	(77,208)	76,286
TRANSFERS			
Transfers in	-	55,500	55,500
Transfers out	(54,000)	-	(54,000)
	<u>(54,000)</u>	<u>55,500</u>	<u>1,500</u>
CHANGE IN NET ASSETS	99,494	(21,708)	77,786
NET ASSETS , beginning of the year	<u>3,714,811</u>	<u>320,183</u>	<u>4,034,994</u>
NET ASSETS , end of the year	<u>\$ 3,814,305</u>	<u>\$ 298,475</u>	<u>\$ 4,112,780</u>

City of Alpena

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS**

Year Ended June 30, 2005

	Equipment	Stores	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund service provided	\$ 1,112,915	\$ 132,742	\$ 1,245,657
Payments to suppliers	(252,889)	(133,218)	(386,107)
Payments to employees	(203,599)	-	(203,599)
Payments for interfund services used	(209,029)	(42,750)	(251,779)
Net cash provided (used) by operating activities	447,398	(43,226)	404,172
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from (to) other funds	(54,000)	55,500	1,500
Net cash provided (used) by noncapital financing activities	(54,000)	55,500	1,500
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition of capital assets	(162,936)	-	(162,936)
Proceeds from disposal of assets	7,079	-	7,079
Principal paid on capital debt	(13,085)	-	(13,085)
Net cash provided (used) by capital and related financing activities	(168,942)	-	(168,942)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(400,000)	-	(400,000)
Proceeds from sale and maturities of investment securities	409,328	-	409,328
Donations received	3,000	-	3,000
Interest and dividends received	44,447	-	44,447
Net cash provided (used) by investing activities	56,775	-	56,775
Net increase (decrease) in cash and cash equivalents	281,231	12,274	293,505
CASH AND CASH EQUIVALENTS, beginning of the year	-	113,305	113,305
CASH AND CASH EQUIVALENTS, end of the year	<u>\$ 281,231</u>	<u>\$ 125,579</u>	<u>\$ 406,810</u>

(continued)

City of Alpena

**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS - Continued**

Year Ended June 30, 2005

	<u>Equipment</u>	<u>Stores</u>	<u>Totals</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 110,765	\$ (77,208)	\$ 33,557
Adjustments to reconcile operating income to net cash provided (used) by operating activities			
Depreciation	324,712	-	324,712
(Increase) decrease in receivables	14,945	-	14,945
(Increase) decrease in internal balances	(10,509)	-	(10,509)
(Increase) decrease in inventories	-	36,049	36,049
(Increase) decrease in prepaid items	4,075	-	4,075
Increase (decrease) in accounts payable	3,032	(2,067)	965
Increase (decrease) in accrued payroll	378	-	378
	<u>\$ 447,398</u>	<u>\$ (43,226)</u>	<u>\$ 404,172</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES			
Increase (decrease) in fair value of investments	<u>\$ (11,797)</u>	<u>\$ -</u>	<u>\$ (11,797)</u>

City of Alpena

Enterprise Funds

Description of Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the City is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Water Fund. The cost of providing water services to City residents is accounted for by this fund. Revenues are primarily from charges to customers for water usage.

Sewage Fund. This fund is used to account for the cost of collecting and treating wastewater. Revenues are chiefly from service charges to customers.

City of Alpena

Water Fund

COMPARATIVE SCHEDULE OF NET ASSETS

	June 30,	
	2005	2004
ASSETS		
Current assets		
Pooled cash and investments	\$ 1,049,652	\$ 144,599
Investments	199,812	1,000,038
Accounts receivable	523,818	537,586
Special assessments receivable	-	847
Due from other governmental units	69,160	-
Interest receivable	3,936	7,217
Due from other funds	51,556	51,556
Total current assets	<u>1,897,934</u>	<u>1,741,843</u>
Noncurrent assets		
Deferred charges	19,375	20,875
Capital assets not being depreciated	5,365	1,060
Capital assets, net of accumulated depreciation	6,122,531	5,967,758
Total noncurrent assets	<u>6,147,271</u>	<u>5,989,693</u>
Total assets	<u>8,045,205</u>	<u>7,731,536</u>
LIABILITIES		
Current liabilities		
Accounts payable	5,628	12,117
Accrued payroll	696	360
Accrued interest payable	20,475	21,256
Unearned revenue	-	847
Bonds and notes payable - current portion	75,000	50,000
Total current liabilities	<u>101,799</u>	<u>84,580</u>
Noncurrent liabilities		
Bonds and notes payable	<u>1,625,000</u>	<u>1,700,000</u>
Total liabilities	<u>1,726,799</u>	<u>1,784,580</u>
NET ASSETS		
Invested in capital assets, net of related debt	4,427,896	4,218,818
Restricted for		
Debt retirement	179,250	179,250
Capital outlay	363,622	51,973
Unrestricted	1,347,638	1,496,915
Total net assets	<u>\$ 6,318,406</u>	<u>\$ 5,946,956</u>

City of Alpena

Water Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

	Years Ended June 30,	
	2005	2004
OPERATING REVENUES		
Charges for services	\$ 1,385,360	\$ 1,348,889
Other	22,533	20,080
Total operating revenues	1,407,893	1,368,969
OPERATING EXPENSES		
Production		
Contracted services	467,883	466,306
Utilities	84,017	83,272
Depreciation	62,778	65,155
Supplies and other	92,847	69,233
	707,525	683,966
Distribution		
Salaries and wages	23,300	26,670
Employee benefits	744	708
Contracted services	156,315	143,784
Maintenance	10,566	3,590
Equipment rental	18,666	22,914
Depreciation	144,644	139,884
Supplies and other	1,171	685
	355,406	338,235
Commercial and general		
Employee benefits	9,370	12,128
Administrative services	89,618	87,200
Contracted services	38,275	37,619
Insurance	19,117	21,922
	156,380	158,869
Total operating expenses	1,219,311	1,181,070
OPERATING INCOME (LOSS)	188,582	187,899
NONOPERATING REVENUES (EXPENSES)		
Federal revenue	241,558	21,314
Investment income and rents	25,641	21,642
Interest expense	(84,331)	(87,457)
	182,868	(44,501)
CHANGE IN NET ASSETS	371,450	143,398
NET ASSETS, beginning of the year	5,946,956	5,803,558
NET ASSETS, end of the year	\$ 6,318,406	\$ 5,946,956

City of Alpena

Water Fund

COMPARATIVE SCHEDULE OF CASH FLOWS

	Years Ended June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,352,501	\$ 1,369,272
Payments to suppliers	(895,346)	(854,789)
Payments to employees	(33,078)	(39,994)
Payments for interfund services used	(89,618)	(87,200)
Net cash provided (used) by operating activities	334,459	387,289
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Proceeds from federal grants	241,558	21,314
Net cash provided (used) by noncapital financing activities	241,558	21,314
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(366,500)	(244,532)
Principal paid on capital debt	(50,000)	(50,000)
Interest paid on capital debt	(83,612)	(86,738)
Proceeds from sale of capital assets	-	3,308
Net cash provided (used) by capital and related financing activities	(500,112)	(377,962)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,300,000	500,000
Purchase of investments	(500,000)	(1,000,038)
Interest and dividends received	29,148	15,830
Net cash provided (used) by investing activities	829,148	(484,208)
Net increase (decrease) in cash and cash equivalents	905,053	(453,567)
CASH AND CASH EQUIVALENTS, beginning of the year	144,599	598,166
CASH AND CASH EQUIVALENTS, end of the year	\$ 1,049,652	\$ 144,599

City of Alpena

Water Fund

COMPARATIVE SCHEDULE OF CASH FLOWS

	Years Ended June 30,	
	2005	2004
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 188,582	\$ 187,899
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	207,422	198,423
(Increase) decrease in accounts receivable	13,768	303
(Increase) decrease in special assessments receivable	847	846
(Increase) decrease in due from governmental units	(69,160)	-
Increase (decrease) in accounts payable	(6,489)	1,152
Increase (decrease) in accrued payroll	336	(488)
Increase (decrease) in unearned revenue	(847)	(846)
Net cash provided (used) by operating activities	<u>\$ 334,459</u>	<u>\$ 387,289</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$ (226)</u>	<u>\$ (2)</u>

City of Alpena

Sewage Fund

COMPARATIVE SCHEDULE OF NET ASSETS

	June 30,	
	2005	2004
ASSETS		
Current assets		
Pooled cash and investments	\$ 1,427,290	\$ 414,127
Investments	-	799,829
Accounts receivable	139,025	139,946
Special assessments receivable	-	1,694
Due from other governmental units	9,704	-
Interest receivable	-	5,163
Total current assets	<u>1,576,019</u>	<u>1,360,759</u>
Noncurrent assets		
Deferred charges	19,375	20,875
Capital assets not being depreciated	8	7,139
Capital assets, net of accumulated depreciation	<u>13,841,850</u>	<u>14,076,010</u>
Total noncurrent assets	<u>13,861,233</u>	<u>14,104,024</u>
Total assets	<u>15,437,252</u>	<u>15,464,783</u>
LIABILITIES		
Current liabilities		
Accounts payable	34,345	24,164
Accrued payroll	1,118	928
Accrued interest payable	20,475	21,256
Unearned revenue	-	1,694
Bonds and notes payable - current portion	<u>75,000</u>	<u>50,000</u>
Total current liabilities	<u>130,938</u>	<u>98,042</u>
Noncurrent liabilities		
Bonds and notes payable	<u>1,625,000</u>	<u>1,700,000</u>
Total liabilities	<u>1,755,938</u>	<u>1,798,042</u>
NET ASSETS		
Invested in capital assets, net of related debt	12,141,858	12,333,149
Restricted for		
Debt retirement	179,250	179,250
Capital outlay	32,587	393,478
Unrestricted	<u>1,327,619</u>	<u>760,864</u>
Total net assets	<u>\$ 13,681,314</u>	<u>\$ 13,666,741</u>

City of Alpena

Sewage Fund

**COMPARATIVE SCHEDULE OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS**

	Years Ended June 30,	
	2005	2004
OPERATING REVENUES		
Charges for services	\$ 1,654,486	\$ 1,752,932
Other	7,645	11,671
Total operating revenues	1,662,131	1,764,603
OPERATING EXPENSES		
Treatment plant		
Employee benefits	912	912
Administrative services	106,090	103,000
Contracted services	533,464	523,379
Insurance	43,922	41,112
Utilities	195,587	194,977
Depreciation	260,109	264,137
Supplies and other	50,807	40,738
	1,190,891	1,168,255
Collection system		
Salaries and wages	28,308	21,795
Employee benefits	12,262	9,197
Contracted services	193,836	167,694
Utilities	15,170	16,574
Maintenance	8,881	8,206
Equipment rental	23,064	16,933
Depreciation	264,372	219,368
Supplies and other	821	476
	546,714	460,243
Total operating expenses	1,737,605	1,628,498
OPERATING INCOME (LOSS)	(75,474)	136,105
NONOPERATING REVENUES (EXPENSES)		
State revenue	-	94,151
Federal revenue	149,769	261,884
Investment income and rents	24,609	18,099
Interest expense	(84,331)	(87,456)
	90,047	286,678
CHANGE IN NET ASSETS	14,573	422,783
NET ASSETS , beginning of the year	13,666,741	13,243,958
NET ASSETS , end of the year	\$ 13,681,314	\$ 13,666,741

City of Alpena

Sewage Fund

COMPARATIVE SCHEDULE OF CASH FLOWS

	Years Ended June 30,	
	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 1,653,348	\$ 1,765,995
Payments to suppliers	(1,055,371)	(1,107,700)
Payments to employees	(41,292)	(32,150)
Payments for interfund services used	(106,090)	(103,000)
Net cash provided (used) by operating activities	450,595	523,145
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State grants	-	94,151
Federal grants	149,769	261,884
Net cash provided (used) by noncapital financing activities	149,769	356,035
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(283,190)	(832,109)
Principal paid on capital debt	(50,000)	(50,000)
Interest paid on capital debt	(83,612)	(86,737)
Proceeds from sale of capital assets	-	66,646
Net cash provided (used) by capital and related financing activities	(416,802)	(902,200)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments	1,100,000	500,000
Purchase of investments	(300,000)	(799,829)
Interest and dividends received	29,601	14,403
Net cash provided (used) by investing activities	829,601	(285,426)
Net increase (decrease) in cash and cash equivalents	1,013,163	(308,446)
CASH AND CASH EQUIVALENTS, beginning of the year	414,127	722,573
CASH AND CASH EQUIVALENTS, end of the year	\$ 1,427,290	\$ 414,127

City of Alpena

Sewage Fund

COMPARATIVE SCHEDULE OF CASH FLOWS

	Years Ended June 30,	
	2005	2004
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ (75,474)	\$ 136,105
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation	524,481	483,505
(Increase) decrease in accounts receivable	921	1,392
(Increase) decrease in special assessments receivable	1,694	1,694
(Increase) decrease in due from other governmental units	(9,704)	-
Increase (decrease) in accounts payable	10,181	(97,611)
Increase (decrease) in accrued payroll	190	(246)
Increase (decrease) in unearned revenue	(1,694)	(1,694)
Net cash provided (used) by operating activities	<u>\$ 450,595</u>	<u>\$ 523,145</u>
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES		
Increase (decrease) in fair value of investments	<u>\$ (171)</u>	<u>\$ (203)</u>

City of Alpena

Fiduciary Funds

Description of Funds

PENSION TRUST FUND

Pension Trust Fund. This fund is a trust fund used to record the activity of the City's pension plan. It was created and is operated under guidance of the Charter of the City of Alpena. The pension plan is financed by contributions from both the employees and the City.

Employee Health Care Fund. This fund is a trust fund used to record employee health care costs. The fund is financed by contributions from the City.

AGENCY FUNDS

General Trust. This fund is used to account for taxes collected on behalf of other governmental units.

Special Trust. This fund is used to account for all other trust activity.

City of Alpena

COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS

June 30, 2005

	Pension (and other employee benefit) Trust Funds		Totals
	Pension Trust Fund	Employee Health Care Fund	
ASSETS			
Cash and cash equivalents	\$ 2,867,124	\$ 136,320	\$ 3,003,444
Investments	23,217,217	-	23,217,217
Interest receivable	187,292	1,121	188,413
	<u>26,271,633</u>	<u>137,441</u>	<u>26,409,074</u>
LIABILITIES			
Accounts payable	<u>15,737</u>	<u>-</u>	<u>15,737</u>
	<u>15,737</u>	<u>-</u>	<u>15,737</u>
NET ASSETS			
Reserved for employees retirement and other purposes	26,255,896	137,441	26,393,337
	<u>\$ 26,255,896</u>	<u>\$ 137,441</u>	<u>\$ 26,393,337</u>

City of Alpena

COMBINING STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS

June 30, 2005

	Pension (and other employee benefit) Trust Funds		Totals
	Pension Trust Fund	Employee Health Care Fund	
ADDITIONS			
Contributions			
Employer	\$ 27,790	\$ 147,110	\$ 174,900
Employees	124,676	-	124,676
Other	4,900	-	4,900
Total contributions	<u>157,366</u>	<u>147,110</u>	<u>304,476</u>
Investment income			
Net increase (decrease) in fair value of investments	(80,808)	-	(80,808)
Interest	592,745	2,734	595,479
Dividends	161,735	-	161,735
	<u>673,672</u>	<u>2,734</u>	<u>676,406</u>
Less investment expense	<u>77,626</u>	<u>-</u>	<u>77,626</u>
Net investment income	<u>596,046</u>	<u>2,734</u>	<u>598,780</u>
Total additions	<u>753,412</u>	<u>149,844</u>	<u>903,256</u>
DEDUCTIONS			
Benefits	1,451,285	119,562	1,570,847
Lump-sum retirement payments	165,573	-	165,573
Administrative expense	23,073	-	23,073
Total deductions	<u>1,639,931</u>	<u>119,562</u>	<u>1,759,493</u>
Change in net assets	(886,519)	30,282	(856,237)
Net assets - beginning of the year	<u>27,142,415</u>	<u>107,159</u>	<u>27,249,574</u>
Net assets - end of the year	<u>\$ 26,255,896</u>	<u>\$ 137,441</u>	<u>\$ 26,393,337</u>

City of Alpena

**COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES - ALL AGENCY FUNDS**

Year Ended June 30, 2005

	Balances, June 30, 2004	Additions	Deductions	Balances, June 30, 2005
GENERAL TRUST FUND				
ASSETS				
Cash and cash equivalents	\$ 15,750	\$ 2,702,610	\$ 2,702,229	\$ 16,131
Taxes receivable	9,952	1,483,070	1,490,565	2,457
	<u>\$ 25,702</u>	<u>\$ 4,185,680</u>	<u>\$ 4,192,794</u>	<u>\$ 18,588</u>
LIABILITIES				
Accounts payable	\$ 15,750	\$ 634	\$ 253	\$ 16,131
Due to other governmental units	9,952	2,694,098	2,701,593	2,457
	<u>\$ 25,702</u>	<u>\$ 2,694,732</u>	<u>\$ 2,701,846</u>	<u>\$ 18,588</u>
SPECIAL TRUST FUND				
ASSETS				
Cash and cash equivalents	\$ 32,900	\$ 27,424	\$ 26,248	\$ 34,076
	<u>\$ 32,900</u>	<u>\$ 27,424</u>	<u>\$ 26,248</u>	<u>\$ 34,076</u>
LIABILITIES				
Accounts payable	\$ 32,900	\$ 27,424	\$ 26,248	\$ 34,076
	<u>\$ 32,900</u>	<u>\$ 27,424</u>	<u>\$ 26,248</u>	<u>\$ 34,076</u>
TOTALS, ALL AGENCY FUNDS				
ASSETS				
Cash and cash equivalents	\$ 48,650	\$ 2,730,034	\$ 2,728,477	\$ 50,207
Taxes receivable	9,952	1,483,070	1,490,565	2,457
	<u>\$ 58,602</u>	<u>\$ 4,213,104</u>	<u>\$ 4,219,042</u>	<u>\$ 52,664</u>
LIABILITIES				
Accounts payable	\$ 48,650	\$ 28,058	\$ 26,501	\$ 50,207
Due to other governmental units	9,952	2,694,098	2,701,593	2,457
	<u>\$ 58,602</u>	<u>\$ 2,722,156</u>	<u>\$ 2,728,094</u>	<u>\$ 52,664</u>

City of Alpena

SCHEDULE OF INDEBTEDNESS

June 30, 2005

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
ENTERPRISE FUNDS				
City of Alpena, Water Supply and Sewage Disposal System	6.25%	2005/06	\$ 150,000	\$ 159,113
Revenue Bonds	6.25%	2006/07	150,000	149,737
	6.25%	2007/08	200,000	138,800
Date of Issue: May 18, 1998	4.90%	2008/09	200,000	126,300
Amount of Issue: \$4,000,000	4.50%	2009/10	200,000	115,150
	4.50%	2010/11	250,000	104,625
	4.50%	2011/12	250,000	93,375
	4.50%	2012/13	250,000	82,125
	4.50%	2013/14	250,000	70,875
	4.50%	2014/15	300,000	58,500
	4.50%	2015/16	300,000	45,000
	4.25%	2016/17	300,000	31,875
	4.25%	2017/18	300,000	19,125
	4.25%	2018/19	300,000	6,375
Total Enterprise Funds			<u>3,400,000</u>	<u>1,200,975</u>
INTERNAL SERVICE FUNDS				
City of Alpena, Installment Purchase Agreement				
Date of Issue: May 10, 2004				
Amount of Issue: \$39,255	0.00%	2005/06	<u>13,085</u>	<u>-</u>
Total Internal Service Funds			<u>13,085</u>	<u>-</u>
GENERAL LONG-TERM DEBT ACCOUNT GROUP				
City of Alpena, Alpena County	4.80%	2005/06	175,000	32,200
Sanitary Sewage Unlimited	5.00%	2006/07	175,000	23,625
Tax Refunding Bonds	5.00%	2007/08	195,000	14,375
Date of Issue: January 12, 1994	5.00%	2008/09	190,000	4,750
Amount of Issue: \$2,705,000			<u>735,000</u>	<u>74,950</u>

(continued)

City of Alpena

SCHEDULE OF INDEBTEDNESS

June 30, 2005

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
GENERAL LONG-TERM DEBT				
ACCOUNT GROUP (continued)				
City of Alpena, 2000 Land Purchase	3.750%	2005/06	\$ 40,541	\$ 12,865
Bank Loan	3.750%	2006/07	40,541	11,323
Date of Issue: August 11, 2000	3.750%	2007/08	40,541	9,809
Amount of Issue: \$880,000	3.750%	2008/09	40,541	8,241
	3.750%	2009/10	40,541	6,699
	3.750%	2010/11	40,541	5,158
	3.750%	2011/12	40,541	3,626
	3.750%	2012/13	40,541	2,075
	3.750%	2013/14	14,034	533
			<u>338,362</u>	<u>60,329</u>
City of Alpena, Building Authority	4.000%	2005/06	25,000	15,325
2001 Building Authority Bonds	4.000%	2006/07	25,000	14,325
Date of Issue: September 15, 2001	4.100%	2007/08	25,000	13,325
Amount of Issue: \$400,000	4.200%	2008/09	25,000	12,313
	4.300%	2009/10	30,000	11,170
	4.400%	2010/11	30,000	9,895
	4.500%	2011/12	30,000	8,590
	4.600%	2012/13	35,000	7,142
	4.700%	2013/14	40,000	5,435
	4.800%	2014/15	45,000	3,458
	4.800%	2015/16	50,000	1,200
			<u>360,000</u>	<u>102,178</u>
City of Alpena	3.500%	2005/06	165,000	55,502
2002 General Obligation Unlimited	3.500%	2006/07	210,000	48,940
Tax Refunding Bonds	3.600%	2007/08	205,000	41,575
Date of Issue: February 28, 2002	3.800%	2008/09	225,000	33,610
Amount of Issue: \$1,995,000	4.000%	2009/10	225,000	24,835
	4.100%	2010/11	245,000	15,312
	4.200%	2011/12	245,000	5,145
			<u>1,520,000</u>	<u>224,919</u>

(continued)

City of Alpena

SCHEDULE OF INDEBTEDNESS - Continued

June 30, 2005

	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Principal Payable</u>	<u>Annual Interest Payable</u>
GENERAL LONG-TERM DEBT				
ACCOUNT GROUP (continued)				
City of Alpena, Building Authority	3.100%	2005/06	\$ 25,000	\$ 79,800
2004 Building Authority Bonds	3.100%	2006/07	25,000	79,025
Date of Issue: August 1, 2004	3.200%	2007/08	25,000	78,238
Amount of Issue: \$1,800,000	3.300%	2008/09	50,000	77,013
	3.450%	2009/10	50,000	75,325
	3.550%	2010/11	50,000	73,575
	3.600%	2011/12	50,000	71,788
	3.750%	2012/13	50,000	69,950
	3.800%	2013/14	50,000	68,063
	3.900%	2014/15	50,000	66,137
	4.050%	2015/16	75,000	63,644
	4.150%	2016/17	75,000	60,568
	4.250%	2017/18	75,000	57,418
	4.350%	2018/19	75,000	54,194
	4.450%	2019/20	75,000	50,893
	4.550%	2020/21	75,000	47,519
	4.700%	2021/22	75,000	44,050
	4.750%	2022/23	75,000	40,506
	4.850%	2023/24	100,000	36,300
	5.000%	2024/25	100,000	31,375
	5.000%	2025/26	100,000	26,375
	5.000%	2026/27	100,000	21,375
	5.000%	2027/28	125,000	15,750
	5.000%	2028/29	125,000	9,500
	5.100%	2029/30	125,000	3,188
			<u>1,800,000</u>	<u>1,301,569</u>
Accrued sick pay liability			208,043	-
Accrued vacation liability			<u>230,808</u>	<u>-</u>
Total General Long-Term Debt Account Group			<u>5,192,213</u>	<u>1,763,945</u>
Total Long-Term Debt			<u>\$ 8,605,298</u>	<u>\$ 2,964,920</u>

III. STATISTICAL SECTION

This part of the City of Alpena's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information.

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Sources. Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. The City implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

City of Alpena

NET ASSETS BY COMPONENT (accrual basis of accounting)

Last Three Fiscal Years Ended June 30

Table 1

	Years Ended June 30,		
	2005	2004	2003
Governmental activities:			
Invested in capital assets, net of related debt	\$ 24,140,441	\$ 23,557,458	\$ 22,839,291
Restricted	1,662,969	1,400,491	1,353,631
Unrestricted	7,316,878	7,249,460	7,678,041
Total governmental activities net assets	33,120,288	32,207,409	31,870,963
Business-type activities:			
Invested in capital assets, net of related debt	16,615,577	16,633,496	16,314,802
Restricted	754,709	803,951	641,243
Unrestricted	2,764,352	2,447,072	2,484,779
Total business-type activities net assets	20,134,638	19,884,519	19,440,824
Primary government:			
Invested in capital assets, net of related debt	40,756,018	40,190,954	39,154,093
Restricted	2,417,678	2,204,442	1,994,874
Unrestricted	10,081,230	9,696,532	10,162,820
Total primary government net assets	53,254,926	52,091,928	51,311,787

Note: The City of Alpena implemented GASB Statement No. 34 reporting model for 2003 year end.

City of Alpena

CHANGES IN NET ASSETS (accrual basis of accounting)

Last Three Fiscal Years Ended June 30

Table 2

	Years Ended June 30,		
	2005	2004	2003
Expenses:			
Governmental activities:			
General government	\$ 2,854,309	\$ 2,823,709	\$ 2,829,411
Public safety	3,983,177	3,923,500	3,745,901
Public works	3,080,038	3,060,171	3,139,273
Parks and recreation	803,975	668,947	811,640
Interest on long-term debt	199,798	157,677	182,149
Total governmental activities expenses	10,921,297	10,634,004	10,708,374
Business-type activities:			
Water	1,219,311	1,265,219	1,289,363
Sewage	1,737,605	1,715,127	1,675,715
DART	728,710	736,014	752,869
Total business-type expenses	3,685,626	3,716,360	3,717,947
Total primary government expenses	14,606,923	14,350,364	14,426,321
Program Revenues:			
Governmental activities:			
Charges for services:			
General government	800,994	1,474,710	1,384,380
Public safety	994,356	762,349	683,260
Note: The City of Alpena implemented GASB S	934,899	751,573	428,797
Parks and recreation	278,968	94,167	231,082
Operating grants and contributions	2,232,836	1,824,269	1,949,597
Capital grants and contributions	505,570	222,866	-
Total governmental activities program revenues	5,747,623	5,129,934	4,677,116
Business-type activities:			
Charges for services:			
Water	1,407,893	1,386,148	1,447,964
Sewage	1,662,131	1,764,603	1,571,618
DART	75,663	65,433	70,820
Operating grants and contributions	615,225	785,113	621,183
Capital grants and contributions	-	-	-
Total business-type activities program revenues	3,760,912	4,001,297	3,711,585
Total primary government program revenues	9,508,535	9,131,231	8,388,701
Net (Expense) Revenue:			
Governmental activities	(5,173,674)	(5,504,070)	(6,031,258)
Business-type activities	75,286	284,937	(6,362)
Total primary government net (expense) revenue	(5,098,388)	(5,219,133)	(6,037,620)

(continued)

City of Alpena

CHANGES IN NET ASSETS (accrual basis of accounting) - continued

Last Three Fiscal Years Ended June 30

Table 2 (continued)

	Years Ended June 30,		
	2005	2004	2003
General Revenues:			
Governmental activities:			
Property taxes, levied for general purposes	\$ 4,095,547	\$ 3,913,939	\$ 3,870,114
Property taxes, levied for debt service	332,184	324,128	321,139
State sales tax	1,424,107	1,482,054	1,535,044
Investment earnings	216,529	120,395	272,737
Gain on sale of capital assets	18,186	-	-
Total Governmental activities:	<u>6,086,553</u>	<u>5,840,516</u>	<u>5,999,034</u>
Business-type activities:			
Property taxes, levied for general purposes	122,433	117,017	116,320
Investment earnings	52,400	41,741	62,464
Gain on sale of capital assets	-	-	1,845
Total Business-type activities	<u>174,833</u>	<u>158,758</u>	<u>180,629</u>
Total primary government	<u>6,261,386</u>	<u>5,999,274</u>	<u>6,179,663</u>
Change in Net Assets			
Governmental activities	912,879	336,446	(32,224)
Business-type activities	250,119	443,695	174,267
Total primary government	<u>\$ 1,162,998</u>	<u>\$ 780,141</u>	<u>\$ 142,043</u>

Note: The City of Alpena implemented GASB Statement No. 34 reporting model for 2003 year end.

City of Alpena

FUND BALANCES OF GOVERNMENTAL FUNDS
(modified accrual basis of accounting)

For the Last Ten Years June 30,

	2005	2004	2003	2002
General Fund:				
Reserved	\$ -	\$ -	\$ -	\$ 34,900
Unreserved	<u>2,058,127</u>	<u>2,019,285</u>	<u>2,191,505</u>	<u>3,029,007</u>
Total General fund	<u>2,058,127</u>	<u>2,019,285</u>	<u>2,191,505</u>	<u>3,063,907</u>
All Other Governmental Funds:				
Reserved for debt service	21,141	16,098	34,804	46,122
Reserved for capital outlay	1,641,828	1,384,393	1,318,827	1,344,880
Unreserved, reported in:				
Special revenue funds	1,697,187	1,857,862	2,086,078	1,590,406
Permanent fund	<u>790,213</u>	<u>784,837</u>	<u>801,936</u>	<u>790,290</u>
Total all other governmental funds	<u>4,150,369</u>	<u>4,043,190</u>	<u>4,241,645</u>	<u>3,771,698</u>
Total governmental funds	<u>\$ 6,208,496</u>	<u>\$ 6,062,475</u>	<u>\$ 6,433,150</u>	<u>\$ 6,835,605</u>

Table 3

2001	2000	1999	1998	1997	1996
\$ 356,200	\$ 185,000	\$ 55,000	\$ 300,000	\$ -	\$ -
2,731,050	3,387,709	3,591,552	4,622,209	4,499,506	3,698,059
3,087,250	3,572,709	3,646,552	4,922,209	4,499,506	3,698,059
53,560	26,655	38,820	30,344	25,249	29,220
1,258,757	1,140,109	1,118,776	441,572	418,500	397,266
1,405,473	2,234,674	2,019,909	1,178,851	782,287	1,120,460
753,058	720,779	703,978	697,678	681,557	657,547
3,470,848	4,122,217	3,881,483	2,348,445	1,907,593	2,204,493
\$ 6,558,098	\$ 7,694,926	\$ 7,528,035	\$ 7,270,654	\$ 6,407,099	\$ 5,902,552

City of Alpena

CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
(modified accrual basis of accounting)

For the Last Ten Years June 30,

	2005	2004	2003	2002
REVENUES				
Taxes	\$ 4,436,789	\$ 4,235,765	\$ 4,207,225	\$ 4,162,288
Licenses and permits	154,869	139,405	82,087	113,802
State revenue	3,504,886	2,912,378	2,838,230	2,917,121
Federal revenue	77,473	82,722	148,611	139,399
Local grant revenue	580,154	534,089	497,800	671,691
Charges for services	1,221,464	1,289,249	1,237,802	1,523,765
Investment income and rents	301,127	239,274	293,772	340,627
Fines and forfeitures	39,050	31,621	21,215	22,299
Other	251,875	444,942	384,769	323,211
Total revenues	<u>10,567,687</u>	<u>9,909,445</u>	<u>9,711,511</u>	<u>10,214,203</u>
EXPENDITURES				
General government	2,047,589	1,932,597	1,968,481	2,037,717
Public safety	4,026,676	3,672,633	3,584,989	3,740,259
Public works	2,992,332	3,245,367	728,910	2,531,838
Parks and recreation	969,685	738,511	1,661,368	878,391
Capital outlay	1,585,041	7,574	1,459,453	343,724
Debt service				
Principal retirement	415,541	472,591	473,988	504,610
Interest and fees	183,302	155,347	191,277	332,752
Note: The City of Alpena implements	<u>12,220,166</u>	<u>10,224,620</u>	<u>10,068,466</u>	<u>10,369,291</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	<u>(1,652,479)</u>	<u>(315,175)</u>	<u>(356,955)</u>	<u>(155,088)</u>
OTHER FINANCING SOURCES (USES)				
Bond and note proceeds	1,800,000	-	-	2,404,777
Payments to escrow agent	-	-	-	(1,931,682)
Transfers from other funds	1,265,279	1,301,695	1,337,046	1,301,797
Transfers to other funds	(1,266,779)	(1,357,195)	(1,382,546)	(1,342,297)
Total other financing sources (uses)	<u>1,798,500</u>	<u>(55,500)</u>	<u>(45,500)</u>	<u>432,595</u>
Net Change in Fund Balances	<u>\$ 146,021</u>	<u>\$ (370,675)</u>	<u>\$ (402,455)</u>	<u>\$ 277,507</u>
Debt service as a percentage of Noncapital expenditures	<u>5.97%</u>	<u>6.55%</u>	<u>8.37%</u>	<u>9.11%</u>

Table 4

2001	2000	1999	1998	1997	1996
\$ 4,063,997	\$ 3,985,298	\$ 3,917,253	\$ 3,753,084	\$ 3,619,894	\$ 3,549,819
70,102	81,407	139,865	55,284	79,167	90,966
2,715,185	2,789,476	2,781,915	2,376,357	2,167,606	2,390,597
305,713	1,233,810	62,944	44,302	19,901	35,248
450,939	453,830	553,404	408,732	466,745	517,800
1,477,428	1,489,983	1,491,119	1,350,520	1,327,445	1,227,375
588,380	240,007	462,628	735,735	490,174	435,233
35,931	32,090	42,282	22,609	19,730	24,500
171,936	445,200	239,827	170,540	221,594	271,978
<u>9,879,611</u>	<u>10,751,101</u>	<u>9,691,237</u>	<u>8,917,163</u>	<u>8,412,256</u>	<u>8,543,516</u>
2,359,459	1,654,565	1,586,679	1,328,326	1,260,475	1,171,842
3,592,374	3,463,289	3,449,841	3,151,145	3,204,408	3,004,898
3,349,338	3,892,224	2,571,636	2,402,403	2,206,786	1,662,310
1,095,628	843,944	1,265,488	591,796	647,131	779,705
-	81,069	-	-	-	-
344,908	295,000	275,000	275,000	270,000	260,000
234,232	220,219	237,912	254,138	269,610	283,674
<u>10,975,939</u>	<u>10,450,310</u>	<u>9,386,556</u>	<u>8,002,808</u>	<u>7,858,410</u>	<u>7,162,429</u>
<u>(1,096,328)</u>	<u>300,791</u>	<u>304,681</u>	<u>914,355</u>	<u>553,846</u>	<u>1,381,087</u>
-	-	-	-	-	-
-	-	-	-	-	-
1,313,206	1,260,000	2,240,000	1,445,000	510,220	900,500
(1,353,706)	(1,393,900)	(2,287,300)	(1,495,800)	(559,520)	(948,100)
<u>(40,500)</u>	<u>(133,900)</u>	<u>(47,300)</u>	<u>(50,800)</u>	<u>(49,300)</u>	<u>(47,600)</u>
<u>\$ (1,136,828)</u>	<u>\$ 166,891</u>	<u>\$ 257,381</u>	<u>\$ 863,555</u>	<u>\$ 504,546</u>	<u>\$ 1,333,487</u>
<u>5.57%</u>	<u>5.23%</u>	<u>5.78%</u>	<u>7.08%</u>	<u>7.37%</u>	<u>8.21%</u>

City of Alpena

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY (1)

Last Ten Fiscal Years Ended June 30

Fiscal Year Ended	Tax Year Roll	Real Property		Personal Property	
		Taxable Value	Estimated True Cash Value	Taxable Value	Estimated True Cash Value
06/30/96	1995	\$ 145,047,476	\$ 295,425,200	\$ 48,993,000	\$ 97,986,000
06/30/97	1996	149,650,733	307,095,800	52,548,800	105,097,600
06/30/98	1997	156,252,330	327,441,000	54,518,100	109,036,200
06/30/99	1998	162,795,378	346,668,600	60,409,200	120,818,400
06/30/00	1999	168,840,594	366,354,200	62,738,400	125,476,800
06/30/01	2000	176,805,633	394,712,800	55,792,000	111,584,000
06/30/02	2001	184,855,233	413,508,800	54,347,400	108,694,800
06/30/03	2002	194,545,560	433,775,400	46,942,500	93,885,000
06/30/04	2003	198,685,391	450,540,800	44,676,600	89,353,200
06/30/05	2004	205,694,458	470,235,000	46,453,800	92,907,600

(1) Includes industrial and commercial facilities tax and renaissance zones.

(2) Beginning with the 1996 tax year, property taxes were computed using a taxable value which replaced the assessed value as the computation basis.

(3) Real Property includes a separate class of property created in 2003 called Personal/Real.

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years Ended June 30

Fiscal Year Ended	Tax Year Roll	Total Tax Levy	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections
06/30/96	1995	\$ 3,536,308	\$ 3,530,154	99.83%	\$ 5,880
06/30/97	1996	3,669,857	3,665,722	99.89%	3,853
06/30/98	1997	3,808,414	3,801,540	99.82%	3,926
06/30/99	1998	3,959,235	3,833,305	96.82%	127,742
06/30/00	1999	4,047,227	4,037,229	99.75%	9,963
06/30/01	2000	4,083,556	4,072,535	99.73%	3,769
06/30/02	2001	4,178,371	4,151,233	99.35%	3,582
06/30/03	2002	4,226,527	4,208,012	99.56%	34,439
06/30/04	2003	4,253,600	4,244,609	99.79%	8,315
06/30/05	2004	4,444,195	4,437,279	99.84%	16,749

Table 5

Total		Taxable Value To Estimated Actual Value
Taxable Value	Estimated True Cash Value	
\$ 194,040,476	\$ 393,411,200	49.32%
202,199,533	412,193,400	49.05%
210,770,430	436,477,200	48.29%
223,204,578	467,487,000	47.75%
231,578,994	491,831,000	47.09%
232,597,633	506,296,800	45.94%
239,202,633	522,203,600	45.81%
241,488,060	527,660,400	45.77%
243,361,991	539,894,000	45.08%
252,148,258	563,142,600	44.78%

Table 6

Total Tax Collections	Percent of Total Tax Collections to Total Levy	Outstanding Delinquent Taxes	Percent of Delinquent Taxes to Tax Levy
\$ 3,536,034	99.99%	\$ 9,900	0.28%
3,669,575	99.99%	8,898	0.24%
3,805,466	99.92%	9,656	0.25%
3,961,047	100.05%	1,806	0.05%
4,047,192	100.00%	2,164	0.05%
4,076,304	99.82%	17,227	0.42%
4,154,815	99.44%	20,887	0.50%
4,242,451	100.38%	11,980	0.28%
4,252,924	99.98%	11,980	0.28%
4,454,028	100.22%	2,980	0.07%

City of Alpena

PRINCIPAL TAXPAYERS - TOP TEN

Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>Type of Business</u>
Lafarge Midwest, Inc.	Cement production
Decorative Panels, Inc.	Hardboard manufacturing
Besser Company	Concrete block making machines
Alpena Power Company	Electric power utility
Thunder Bay Manufacturing	Machine shop and foundry
Panel Processing, Inc.	Hardboard processing plant
Alpena Hotel, LLC	Motel and restaurant
Conveyor Systems, Inc.	Conveyor Manufacturer
Alpena Wholesale Grocer	Wholesale Groceries
First Federal Savings & Loan	Bank
Fletcher Paper Company	Paper Mill
DG Trim Products	Automotive carpeting
Michigan Consolidated Gas	Natural gas utility

Ten largest taxpayers

Other taxpayers

Note: The City of Alpena implemented GASB Statement No. 34 reporting model for 2003 year end.

Source: City assessor's office.

Table 7

June 30, 2005			June 30, 1996		
Total Taxable Value	Rank	Percentage of Total Taxable Value	Total Taxable Value	Rank	Percentage of Total Taxable Value
\$ 26,922,909	1	10.35%	\$ 31,350,400	1	15.50%
8,842,800	2	3.40%	9,468,480	2	4.68%
7,369,926	3	2.83%	7,104,997	4	3.51%
4,348,705	4	1.67%	3,361,199	5	1.66%
3,534,816	5	1.36%	1,537,051	8	0.76%
2,690,100	6	1.03%	-	-	-
2,253,900	7	0.87%	1,531,278	9	0.76%
2,213,500	8	0.85%	-	-	-
1,346,500	9	0.52%	-	-	-
1,322,000	10	0.51%	872,863	10	0.43%
-	-	-	8,915,500	3	4.41%
-	-	-	1,840,756	6	0.91%
-	-	-	1,824,200	7	0.90%
60,845,156		23.39%	67,806,724		33.53%
199,281,128		76.61%	134,392,809		66.47%
<u>\$ 260,126,284</u>		<u>100.00%</u>	<u>\$ 202,199,533</u>		<u>100.00%</u>

City of Alpena

**DIRECT AND OVERLAPPING PROPERTY TAX MILLAGE RATES (1)
(PER \$1,000 OF ASSESSED VALUE)**

Last Ten Fiscal Years Ended June 30

Fiscal Year Ended	Tax Year Roll	General Fund	Dial-a-Ride Fund	Debt Service	Community Events Center	Total City Tax Rate
06/30/96	1995 (A)	16.1305	0.4946	2.0700	-	18.6951
06/30/96	1995 (B)	16.1305	0.4946	2.0700	-	18.6951
06/30/97	1996 (A)	16.1305	0.4946	2.0300	-	18.6551
06/30/97	1996 (B)	16.1305	0.4946	2.0300	-	18.6551
06/30/98	1997 (A)	16.1305	0.4946	1.9500	-	18.5751
06/30/98	1997 (B)	16.1305	0.4946	1.9500	-	18.5751
06/30/99	1998 (A)	16.1305	0.4946	1.8000	-	18.4251
06/30/99	1998 (B)	16.1305	0.4946	1.8000	-	18.4251
06/30/00	1999 (A)	16.1305	0.4000	1.6500	-	18.1805
06/30/00	1999 (B)	16.1305	0.4000	1.6500	-	18.1805
06/30/01	2000 (A)	16.1305	0.4500	1.6000	-	18.1805
06/30/01	2000 (B)	16.1305	0.4500	1.6000	-	18.1805
06/30/02	2001 (A)	16.1305	0.4500	1.6000	0.2100	18.3905
06/30/02	2001 (B)	16.1305	0.4500	1.6000	0.2100	18.3905
06/30/03	2002 (A)	16.3000	0.5000	1.3805	0.2100	18.3905
06/30/03	2002 (B)	16.3000	0.5000	1.3805	0.2100	18.3905
06/30/04	2003 (A)	16.2544	0.4986	1.3805	0.2094	18.3429
06/30/04	2003 (B)	16.2544	0.4986	1.3805	0.2094	18.3429
06/30/05	2004 (A)	16.2316	0.4979	1.3500	0.2091	18.2886
06/30/05	2004 (B)	16.2316	0.4979	1.3500	0.2091	18.2886

(1) In addition, the Downtown Development Authority levies 2.00 mills in the Downtown District.

(A) Homestead Property

(B) Non-Homestead Property

SPECIAL ASSESSMENT COLLECTIONS

Last Ten Fiscal Years Ended June 30

Table 9

Fiscal Year Ended	Tax Roll Year	Special Assessments Billed	Special Assessments Collected	Ratio of Collections to Amount Billed	Total Outstanding Assessments
06/30/96	1995	\$ 24,684	\$ 13,254	53.69%	\$ 24,224
06/30/97	1996	65,442	47,315	72.30%	42,351
06/30/98	1997	64,845	420,478	648.44%	65,148
06/30/99	1998	147,125	145,162	98.67%	67,112
06/30/00	1999	38,303	52,661	137.49%	52,754
06/30/01	2000	60,576	56,156	92.70%	57,174
06/30/02	2001	233,319	89,345	38.29%	200,667
06/30/03	2002	-	69,977	N/A	130,689
06/30/04	2003	322,211	185,103	57.45%	267,797
06/30/05	2004	104,016	104,453	100.42%	267,361

Table 8

Alpena Public Schools	Alpena Community College	Educational Service District	Alpena County	State Education Tax	Total Millage Rate
1.0000	2.3073	2.1351	8.2199	6.0000	38.3574
19.0000	2.3073	2.1351	8.2199	6.0000	56.3574
3.9800	2.3073	2.1351	8.4397	6.0000	41.5172
21.9800	2.3073	2.1351	8.4397	6.0000	59.5172
2.9800	2.3073	2.2223	8.0880	6.0000	40.1727
20.9800	2.3073	2.2223	8.0880	6.0000	58.1727
2.9800	2.3073	2.2223	8.0380	6.0000	39.9727
20.9800	2.3073	2.2223	8.0380	6.0000	57.9727
2.4406	2.4990	2.2190	8.0243	6.0000	39.3634
20.4406	2.4990	2.2190	8.0243	6.0000	57.3634
2.1787	2.4868	2.2104	7.9521	6.0000	39.0085
20.1787	2.4868	2.2104	7.9521	6.0000	57.0085
2.4500	2.4787	2.1991	7.5552	6.0000	39.0735
20.4500	2.4787	2.1991	7.5552	6.0000	57.0735
2.3500	2.4750	2.1941	8.0978	6.0000	39.5074
20.3500	2.4750	2.1941	8.0978	6.0000	57.5074
2.3000	2.4750	2.1941	8.0978	6.0000	39.4098
18.0000	2.4750	2.1941	8.0978	6.0000	55.1098
2.2000	2.4410	2.1566	8.0062	6.0000	39.0924
17.8364	2.4410	2.1566	8.0062	6.0000	54.7288

City of Alpena

RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years Ended June 30

Fiscal Year Ended	Governmental Activities			Business-type Activities	Total Primary Government
	General Obligation Bonds	Land Purchase Bank Loan	Installment Purchase Obligations	Revenue Bonds	
06/30/96	\$ 4,930,000	\$ -	\$ -	\$ -	\$ 4,930,000
06/30/97	4,660,000	-	-	-	4,660,000
06/30/98	4,385,000	-	-	4,000,000	8,385,000
06/30/99	4,110,000	-	-	4,000,000	8,110,000
06/30/00	3,815,000	-	331,000	3,900,000	8,046,000
06/30/01	3,525,000	825,092	261,000	3,800,000	8,411,092
06/30/02	3,680,000	635,482	181,000	3,700,000	8,196,482
06/30/03	3,355,000	486,494	91,000	3,600,000	7,532,494
06/30/04	2,980,000	388,903	26,170	3,500,000	6,895,073
06/30/05	4,415,000	338,362	13,085	3,400,000	8,166,447

RATIOS OF GENERAL BONDED DEBT OUTSTANDING

Last Ten Fiscal Years Ended June 30

Fiscal Year Ended	General Obligation Bonds				
	1992 Unlimited Tax refunding	1994 Unlimited Tax refunding	2002 Unlimited Tax refunding	2001 Building Authority	2004 Building Authority
06/30/96	\$ 2,590,000	\$ 2,340,000	\$ -	\$ -	\$ -
06/30/97	2,500,000	2,160,000	-	-	-
06/30/98	2,400,000	1,985,000	-	-	-
06/30/99	2,300,000	1,810,000	-	-	-
06/30/00	2,175,000	1,640,000	-	-	-
06/30/01	2,050,000	1,475,000	-	-	-
06/30/02	-	1,285,000	1,995,000	400,000	-
06/30/03	-	1,100,000	1,855,000	400,000	-
06/30/04	-	915,000	1,685,000	380,000	-
06/30/05	-	735,000	1,520,000	360,000	1,800,000

(1) - Per Northeast Michigan Community Service Agency

(2) - Per Table 5

Table 10

Percentage of Personal Income	Per Capita
2.80%	\$ 428
2.53%	402
3.60%	721
3.39%	696
3.26%	690
3.42%	744
4.15%	725
2.78%	666
2.55%	610
3.02%	722

Table 11

Total	Population (1)	Taxable Value (2)	Percentage of Actual Taxable Value of Property	Per Capita
\$ 4,930,000	11,517	\$ 194,040,476	2.54%	\$ 428
4,660,000	11,589	202,199,533	2.30%	402
4,385,000	11,630	210,770,430	2.08%	377
4,110,000	11,656	223,204,578	1.84%	353
3,815,000	11,665	231,578,994	1.65%	327
3,525,000	11,304	232,597,633	1.52%	312
3,680,000	11,304	239,202,633	1.54%	326
3,355,000	11,304	241,488,060	1.39%	297
2,980,000	11,304	243,361,991	1.22%	264
4,415,000	11,304	252,148,258	1.75%	391

City of Alpena

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years Ended June 30

Legal Debt Margin Calculation for Fiscal Year Ended June 30, 2005				
Total taxable assessed valuation				\$ 252,148,258
Charter debt limit - 8% of total taxable value				\$ 20,171,861
Total General obligation debt		\$ 8,166,447		
Less: Amount available in debt funds		<u>21,141</u>		
Total net debt applicable to limit				<u>8,145,306</u>
Legal debt margin				<u>\$ 12,026,555</u>
	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Debt limit	\$ 20,171,861	\$ 19,468,959	\$ 19,319,045	\$ 19,136,211
Total net debt applicable to limit	<u>8,145,306</u>	<u>6,878,975</u>	<u>7,497,690</u>	<u>8,150,360</u>
Legal debt margin	<u>\$ 12,026,555</u>	<u>\$ 12,589,984</u>	<u>\$ 11,821,355</u>	<u>\$ 10,985,851</u>

Table 12

2001	2000	1999	1998	1997	1996
\$ 18,607,811	\$ 18,523,270	\$ 17,856,366	\$ 17,856,366	\$ 16,861,634	\$ 16,175,963
7,532,440	7,688,345	8,071,180	8,415,345	4,634,751	4,900,780
<u>\$ 11,075,371</u>	<u>\$ 10,834,925</u>	<u>\$ 9,785,186</u>	<u>\$ 9,441,021</u>	<u>\$ 12,226,883</u>	<u>\$ 11,275,183</u>

City of Alpena

COMPUTATION OF DIRECT AND OVERLAPPING DEBT

June 30, 2005

Table 13

<u>Jurisdiction</u>	<u>Net Debt Outstanding</u>	<u>(1) Percentage Applicable to City of Alpena</u>	<u>Amount Applicable to City of Alpena</u>
Direct Debt			
City of Alpena			
Water and Sewage Disposal System	\$ 3,400,000	100.00%	\$ 3,400,000
Alpena County Sanitary Sewage Bonds	735,000	100.00%	735,000
Public Safety Building Bonds	1,520,000	100.00%	1,520,000
Building Authority Bonds	2,160,000	100.00%	2,160,000
Installment Loans	351,447	100.00%	351,447
			<u>8,166,447</u>
Overlapping Debt			
Alpena County	2,155,000	30.87%	665,249
Alpena Public Schools	22,400,000	27.22%	6,097,280
Alpena Community College	1,910,000	27.22%	519,902
AMA ESD	30,000	15.33%	4,599
			<u>7,287,030</u>
Total			<u>\$ 15,453,477</u>

(1) Percentage applicable to the City of Alpena determined using taxable value of the City divided by the taxable value of the taxing district.

City of Alpena

DEMOGRAPHIC STATISTICS

Last Ten Fiscal Years Ended June 30

Table 14

Fiscal Year Ended	(1) Population	(2) Per Capita Income	(3) Median Age	(4) Education Level in Years of Formal Schooling	(5) School Enrollment	(6) Unemployment Rate
06/30/96	11,517	\$ 15,299	37.5	12.9	1,920	9.3%
06/30/97	11,589	15,911	37.7	12.9	2,158	8.0%
06/30/98	11,630	20,010	38.4	12.9	2,082	7.0%
06/30/99	11,656	20,530	38.4	12.9	1,989	6.3%
06/30/00	11,665	21,145	39.7	12.9	1,871	5.7%
06/30/01	11,304	21,779	39.6	12.9	1,953	6.2%
06/30/02	11,304	17,476	39.6	12.9	1,843	8.6%
06/30/03	11,304	23,960	39.6	12.9	1,858	9.5%
06/30/04	11,304	23,960	39.6	12.9	1,767	6.8%
06/30/05	11,304	23,960	39.6	12.9	1,727	7.0%

(1) (3) (4) Census Bureau

(2) Per Northeast Michigan Community Service Agency

(5) Alpena Public Schools - City of Alpena residents
both public and private schools

(6) Michigan Works - Alpena County annual averages

City of Alpena

PRINCIPAL EMPLOYERS - TOP TEN

Current Year and Nine Years Ago

<u>Taxpayer</u>	<u>Type of Business</u>
Alpena Regional Medical Center	Hospital
Alpena Public Schools	Education
Besser Company	Concrete block making machines
Lafarge Midwest, Inc.	Cement production
Decorative Panels, Inc.	Hardboard manufacturing
Northeast Michigan Community Mental Health	Multi-county authority
County of Alpena, Michigan	Local government
Devere Construction Company	Construction contractor
Inland Lakes Management Inc.	Shipping contractor
Crittenden Construction Company	Construction contractor
Tendercare Michigan Inc.	Long term care facility
Fletcher Paper Company	Paper mill
Alpena Community College	Community College
Thunder Bay Manufacturing	Machine shop and foundry
Ten largest employers	
Other employers	
Total employment	

Source: Michigan Works - Alpena County annual averages

Table 15

June 30, 2005			June 30, 1996		
Employees	Rank	Percentage of County of Alpena Employment	Employees	Rank	Percentage of Total City Employment
922	1	6.64%	667	1	4.86%
650	2	4.68%	625	2	4.55%
450	3	3.24%	450	3	3.28%
288	4	2.07%	280	5	2.04%
250	5	1.80%	330	4	2.40%
200	6	1.44%	218	8	1.59%
196	7	1.41%	180	7	1.31%
175	8	1.26%	-	-	-
151	9	1.09%	-	-	-
150	10	1.08%	-	-	-
150	10	1.08%	-	-	-
-	-	-	240	6	1.75%
-	-	-	143	9	1.04%
-	-	-	100	10	0.73%
3,582		25.79%	3,233		23.55%
10,306		74.21%	10,493		76.45%
13,888		100.00%	13,726		100.00%

City of Alpena

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM

For the Last Ten Years June 30,

<u>Function/Program</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
General government	42	42	43	41
Police protection				
Officers	18	18	17	17
Civilians	4	4	4	4
Fire protection				
Firefighters and officers	20	24	25	25
Total	<u>84</u>	<u>88</u>	<u>89</u>	<u>87</u>

Source: City Clerk/Treasurer/Finance Director's office

OPERATING INDICATORS BY FUNCTION

For the Last Ten Years June 30,

<u>Function/Program</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Police protection				
Physical arrests	735	735	704	642
Traffic violations	1,308	1,308	1,610	1,399
Traffic violations - O.I.U.L.	178	168	132	105
Parking violations	443	443	230	318
Fire protection				
Calls answered	766	746	808	887
Insections conducted	470	223	243	173
Ambulance runs	2,361	2,379	2,538	2,657
Sewage system				
Number of service connections	4,747	4,742	4,729	4,714
Average daily treatment-in gallons	2,549,000	2,386,000	2,386,000	2,902,000
Water system				
Number of service connections	4,749	4,743	4,730	4,717
Average daily treatment-in gallons	2,097,000	2,083,425	2,150,000	2,250,000

Sources: Various City departments

Note: Indicators are not available for the general government function.

Table 16

2001	2000	1999	1998	1997	1996
43	44	43	45	39	36
19	19	21	19	19	19
4	4	4	4	3	3
24	26	25	25	25	25
90	93	93	93	86	83

Table 17

2001	2000	1999	1998	1997	1996
817	790	1,147	849	640	587
1,845	2,375	2,883	2,010	1,833	2,253
114	93	127	91	96	104
756	320	730	525	538	667
920	989	824	932	940	956
163	315	315	112	99	217
2,222	2,384	2,405	2,387	2,421	2,262
4,698	4,698	4,681	4,662	4,658	4,602
2,902,000	2,315,000	2,700,000	3,886,000	3,886,000	3,374,000
4,699	4,699	4,682	4,661	4,658	4,603
2,250,000	2,250,000	2,320,000	2,278,000	2,316,000	2,316,000

City of Alpena

CAPITAL ASSETS STATISTICS BY FUNCTION/PROGRAM

For the Last Ten Years June 30,

<u>Function/Program</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Public works				
Major streets (miles)	25.81	25.81	25.40	25.29
Local streets (miles)	43.60	43.60	44.19	44.27
Streetlights	780	780	775	1037
Culture and recreation				
Community centers	1	1	1	1
Parks	16	14	12	12
Tennis courts	4	4	4	4
Artificial ice arena	1	1	1	1
Marina	1	1	1	1
Playgrounds	4	4	4	4
Park shelter buildings	2	2	2	2
Ballfields	7	6	7	7
Horseshoe courts	5	4	4	4
Outdoor ice rinks	1	1	1	1
Beaches	4	4	4	4
Boat Launches	3	3	2	2
Nature preserve	1	1	1	1
Civic Theatre	1	1	1	1
Skateboard parks	2	2	2	2
Bi-Path (miles)	13.5	13.5	13.5	13.5
Fish cleaning stations	1	1	1	1
Public restrooms	2	2	2	2
Fire stations	1	1	1	1
Police protection				
Stations	1	1	1	1
Marked patrol units	6	6	6	6
Unmarked patrol units	4	4	4	4
Sewage system				
Sanitary sewers (miles)	82.60	82.31	82.19	82.60
Storm sewers (miles)	35.90	35.46	35.09	35.90
Treatment capacity (gallons)	15,200,000	15,200,000	15,200,000	15,200,000
Water				
Water mains (miles)	80.90	80.06	74.28	80.90
Fire hydrants	603	598	596	603
Treatment capacity (gallons)	6,000,000	6,000,000	6,000,000	6,000,000

Sources: Various City of Alpena departments

Table 18

2001	2000	1999	1998	1997	1996
24.98	20.58	19.64	18.64	19.64	19.64
44.41	47.97	49.09	49.09	49.09	49.09
1037	1037	1037	1054	1054	1046
1	1	1	1	1	1
12	12	12	12	11	11
6	6	6	6	6	6
1	1	1	1	1	1
1	1	1	1	1	1
4	4	4	4	4	4
2	2	2	2	2	2
7	7	7	7	7	7
6	6	6	6	6	6
1	1	1	1	1	1
4	4	4	4	4	4
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
1	1	1	1	1	1
11.2	11.2	11.2	11.2	11.2	11.2
1	1	1	1	1	1
2	2	2	2	2	2
1	1	1	1	1	1
1	1	1	1	1	1
7	6	6	5	5	5
4	4	4	3	3	3
81.19	74.70	73.33	72.56	72.56	72.28
35.09	35.09	35.09	35.09	35.09	34.82
15,200,000	15,200,000	12,000,000	12,000,000	12,000,000	5,500,000
74.28	73.80	72.31	71.51	71.51	71.18
596	593	555	546	532	528
6,000,000	6,000,000	6,000,000	6,000,000	6,000,000	6,000,000

City of Alpena

MISCELLANEOUS STATISTICS

June 30, 2005

Table 19

Date of Incorporation: 1871
Form of Government: Council/Manager
Area in square miles: 8.8

Facilities and Services Not Included in the Reporting Entity

Education

Number of Elementary Schools

School District: 8

City: 3

Number of Elementary School Instructors

School District: 126

City: 57

Number of Secondary Schools

School District: 3

City: 1

Number of Secondary School Instructors

School District: 143

City: 91

Number of Community Colleges: 1

Number of Universities: 0

Hospitals

Number of Hospitals: 1

Number of Patient Beds: 146

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
MARK L. SANDULA, C.P.A.
TERRENCE D. YULE, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRE
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

November 4, 2005

To the Municipal Council
City of Alpena, Michigan

We have audited the financial statements of City of Alpena, Michigan for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under Generally Accepted Auditing Standards and OMB Circular A-133

As stated in our engagement letter dated August 12, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing an audit, we considered the City of Alpena, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the City of Alpena, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the City of Alpena, Michigan's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on City of Alpena, Michigan's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Alpena, Michigan's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Alpena, Michigan are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ending June 30, 2005. We noted no transactions entered into by the governmental unit during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. No specific or unusual estimates were employed by City of Alpena, Michigan during the year.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the general purpose financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the governmental unit's financial reporting process (that is, cause future financial statement to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the governmental unit, either individually or in the aggregate, indicate matters that could have a significant effect on the governmental unit's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's general purpose financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City of Alpena, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Reportable Conditions

Reportable conditions involve matters coming to our attention, under standards established by the American Institute of Certified Public Accountants, relating to significant deficiencies in the design or operations of the internal control structure that, in our judgment, could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the general purpose of financial statements. We discovered no reportable conditions that should be communicated to management. Our consideration of the internal control structure would not necessarily disclose all matters that might be reportable conditions.

Other Matters

1. **Recent Pronouncements.** The Governmental Accounting Standards Board (GASB), in its continuing process of updating the accounting principles that all governmental units must adhere to, has issued the following recent pronouncements that will have an impact on the way the City of Alpena, Michigan maintains its financial records:
 - A. **GASB Statement No. 47 - Accounting for Termination Benefits.** This statement establishes accounting standards for termination benefits. In financial statements prepared on an accrual basis of accounting, employers should recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. In financial statements prepared on the modified accrual basis of accounting, liabilities and expenditures for termination benefits should be recognized to the extent the liabilities are normally expected to be liquidated with expendable available financial resources. The requirements of this statement are effective for financial statements of the City of Alpena, Michigan for the year ended June 30, 2006.
 - B. **GASB Statement No. 46 - Net Assets Restricted by Enabling Legislation.** This statement clarifies that a legally enforceable enabling legislation restriction is one that a government is required to disclose the portion of net total assets that is restricted. The requirements of this statement are effective for financial statements of the City for the year ended June 30, 2006.
 - C. **GASB Statement No. 45 - Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.** This statement will require governmental units to record the cost of benefits (such as health insurance, life insurance, etc) in the periods when the related services are received by the employer if these benefits are not provided for through a pension plan. This will require the City to accrue and report an actuarially computed liability for any future postemployment benefit other than pensions. The requirements of this statement are effective for financial statements of the City for the year ended June 30, 2007.
 - D. **GASB Statement No. 43 - Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.** This statement establishes uniform reporting standards for other postemployment benefit plans. The financial statements focus on reporting current financial information about plan net assets and required note disclosures include a brief plan description, a summary of significant accounting policies, and information about contributions and legally required reserves. The requirements of this statement are effective for financial statements of the City for the year ended June 30, 2007.

We wish to thank the staff of City of Alpena, Michigan for their assistance during the audit.

This report is intended solely for the information and use of City of Alpena, City council, Michigan Department of Treasury, Management, and others within the governmental unit and is not intended to be and should not be used by anyone other than these specified parties.

We commend the City for its excellent recordkeeping system and appreciate the opportunity to serve the City of Alpena, Michigan. If you have any questions, or if we can be of further service, please do not hesitate to contact us.

Straley, Ilsley & Lamp P.C.

CITY OF ALPENA, MICHIGAN

Federal Financial Assistance Compliance Audit
(Single Audit)

For The Year Ended June 30, 2005

STRALEY, ILSLEY & LAMP P.C.

CONTENTS

	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	1
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A -133 and Schedule of Federal Financial Assistance	3
Schedule of Federal Financial Assistance	6
Notes to Schedule of Federal Financial Assistance	10
Schedule of Findings and Questioned Costs	12
Summary Schedule of Prior Audit Findings	13
Corrective Action Plan	14

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the City Council
City of Alpena, Michigan

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of **City of Alpena, Michigan**, as of and for the year ended June 30, 2005, which collectively comprise the **City of Alpena, Michigan's**, basic financial statements and have issued our report thereon dated November 4, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the **City of Alpena, Michigan's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the **City of Alpena, Michigan's** financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Straley, Ilsley & Lamp P.C.

November 4, 2005

STRALEY, ILSLEY & LAMP P.C.

2106 U.S. 23 SOUTH, P.O. BOX 738

ALPENA, MICHIGAN 49707

TELEPHONE (989) 356-4531

FACSIMILE (989) 356-0494

Certified Public Accountants

PHILIP T. STRALEY, C.P.A.
ROBERT D. ILSLEY, C.P.A.
BERNARD R. LAMP, C.P.A.
TERRENCE D. YULE, C.P.A.
MARK L. SANDULA, C.P.A.
JAMES E. KRAENZLEIN, C.P.A., C.V.A.
SHANNA M. JOHNSON, C.P.A.
DONALD C. LEVREN

TAX, AUDIT AND BUSINESS CONSULTANTS

RETIRED
GORDON A. NETHERCUT, C.P.A.
CARL F. REITZ, C.P.A.
WARREN W. YOUNG, C.P.A.

To the City Council
City of Alpena, Michigan

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND THE
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE.**

Compliance

We have audited the compliance of **City of Alpena, Michigan**, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. **City of Alpena, Michigan's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of **City of Alpena, Michigan's**, management. Our responsibility is to express an opinion on **City of Alpena, Michigan's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about **City of Alpena, Michigan's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on **City of Alpena, Michigan's** compliance with those requirements.

In our opinion, **City of Alpena, Michigan**, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal financial assistance programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the **City of Alpena, Michigan**, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the **City of Alpena, Michigan's** internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Federal Financial Assistance

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **City of Alpena, Michigan**, as of and for the year ended June 30, 2005, and have issued our report thereon dated November 4, 2005. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the **City of Alpena, Michigan's** basic financial statements taken as a whole. The accompanying schedule of federal financial assistance is presented for the purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the City Council, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Straley, Ilsley & Lamp P.C.

November 4, 2005

City of Alpena

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Housing and Urban Development</u>			
Passed through Michigan Economic Development Corporation:			
Community Development Block Grant	* 14.228	MSC-202014-EDIG	\$ 1,400,350
			<u>1,400,350</u>
Passed through Michigan State Housing Development Authority:			
Home Investment Partnerships Program	14.239	M-2002-1088	333,300
			<u>333,300</u>
Total U.S. Department of Housing and Urban Development			<u>1,733,650</u>
<u>U.S. Department of Justice</u>			
Passed through Huron Undercover Narcotics Team:			
Byrne Formula Grant Program	16.579		
Multi Jurisdictional Task Force		N/A	15,379
			<u>15,379</u>
Total U.S. Department of Justice			<u>15,379</u>
<u>U.S. Department of Transportation</u>			
Passed through Michigan Department of Transportation:			
Formula Grants for other than Urbanized Areas	20.309		
Section 5311 Operating - 09/30/05		2002-0005/Z9/R1	56,718
Section 5311 Operating - 09/30/04		2002-0005/Z6/R3	50,567
Section 5311 Operating - 09/30/02		2002-0005/Z2	48,527
RTAP Training Grants		Various	2,970
			<u>158,782</u>
Total U.S. Department of Transportation			<u>158,782</u>
<u>U.S. Department of Homeland Security</u>			
Direct Program:			
Federal Emergency Management Agency:			
Assistance to Firefighters Grants	97.044		
Fire operations and firefighter safety		EMW-2003-FG-03953	91,712
Fire operations and firefighter safety		EMW-2004-FG-13214	25,881
			<u>117,593</u>

* - Major program

Revenue Accrued (Deferred) at July 1, 2004	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Deferred) at June 30, 2005	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ 274,732	\$ 464,560	\$ 876,268	\$ 411,708	\$ 1,151,000
-	274,732	464,560	876,268	411,708	1,151,000
-	158,846	166,660	166,660	-	325,506
-	158,846	166,660	166,660	-	325,506
-	433,578	631,220	1,042,928	411,708	1,476,506
-	-	15,379	15,379	-	15,379
-	-	15,379	15,379	-	15,379
-	-	15,379	15,379	-	15,379
-	-	37,563	38,863	1,300	38,863
23,658	48,942	25,283	1,625	-	50,567
-	45,720	2,807	2,807	-	48,527
-	-	2,970	2,970	-	2,970
23,658	94,662	68,623	46,265	1,300	140,927
23,658	94,662	68,623	46,265	1,300	140,927
-	-	91,712	91,712	-	91,712
-	-	-	25,881	25,881	25,881
-	-	91,712	117,593	25,881	117,593

See notes to financial statements.

City of Alpena

SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

For the year ended June 30, 2005

<u>Federal Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>
<u>U.S. Department of Homeland Security (continued)</u>			
Passed through Michigan State Police Emergency Management Division: State Domestic Preparedness Equipment Support Program:	97.004		
State Domestic Preparedness Program Grant		02-SDPP	\$ 30,000
State Domestic Preparedness Program Grant		05-SHSGP	50,000
State Homeland Security Grant Program			<u>80,000</u>
 Hazard Mitigation Grant Program	97.039	HMGP-A1346.43	 84,700
			<u>84,700</u>
Total passed through Michigan State Police			<u>164,700</u>
Total U.S. Department of Homeland Security			<u>282,293</u>
Total Federal Financial Assistance			<u>\$ 2,190,104</u>

* - Major program

Revenue Accrued (Deferred) at July 1, 2004	Prior Year(s) Expenditures	Current Year		Revenue Accrued (Deferred) at June 30, 2005	Total Expenditures
		Receipts	Expenditures		
\$ -	\$ 28,126	\$ 1,874	\$ 1,874	\$ -	\$ 30,000
-	-	50,000	50,000	-	50,000
-	28,126	51,874	51,874	-	80,000
-	-	84,700	84,700	-	84,700
-	-	84,700	84,700	-	84,700
-	28,126	136,574	136,574	-	164,700
-	28,126	228,286	254,167	25,881	282,293
<u>\$ 23,658</u>	<u>\$ 556,366</u>	<u>\$ 943,508</u>	<u>\$ 1,358,739</u>	<u>\$ 438,889</u>	<u>\$ 1,915,105</u>

See notes to financial statements.

City of Alpena

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1--SIGNIFICANT ACCOUNTING POLICIES.

The accompanying Schedule of Federal Financial Assistance presents the activity of all federal financial assistance programs of the City of Alpena, Michigan. The City of Alpena's reporting entity is defined in Note 1 to the City's financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other governmental agencies are included on the schedule.

The Office of Management and Budget OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, established a risk-based approach to determine which Federal programs were major programs. This risk-based approach included consideration of: current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. Major program determination was performed and is defined in Section 520 of the circular.

For the audit period ended June 30, 2005, the City of Alpena's dollar threshold for larger Federal programs, which were regarded as Type A programs, were programs with Federal awards expended during the audit period which exceeded \$300,000. All other Federal programs were regarded as Type B programs. No federal programs were considered to be high-risk and the determination was made that major programs were all Type A programs to encompass at least 50% of the total federal awards expended. During the year ended June 30, 2005, the City of Alpena, Michigan expended 65% of its total expenditures of Federal Awards under Type A programs audited as Major Programs.

NOTE 2--BASIS OF ACCOUNTING.

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the City's financial statements.

NOTE 3--CFDA.

This refers to the Catalog of Federal Domestic Assistance.

NOTE 4--RELATIONSHIP TO FINANCIAL STATEMENTS.

Revenues from federal sources are reported in the City of Alpena, Michigan's financial statements as follows:

	<u>Federal Revenues</u>
Governmental Funds	
General Fund	\$ 77,473
Proprietary Funds	
Water	241,558
Sewage	149,769
D.A.R.T.	<u>46,265</u>
Federal Revenues per Financial Statements	<u>\$ 515,065</u>

City of Alpena

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 5—RECONCILIATION.

Certain grants are comprised of both federal and state revenue. The percentage of this revenue mix varies from program to program and is not always easily identifiable. In addition, pass-through grants from State agencies are also received by the City. Consequently, certain federal grants may be classified as state grants in the financial statements. The following shows a reconciliation of revenues per the June 30, 2005 audited financial statements to expenditures per the Schedule of Federal Financial Assistance:

Federal revenues as reported in the audited financial statements as of June 30, 2005	\$ 515,065
Michigan State Housing Development Authority Grant reported in the General Fund as a state grant	166,660
Homeland Security grants reported in the General Fund as state grants	117,593
State Domestic Preparedness Program Grant reported in the General Fund as state grants	84,700
Local match from Huron Undercover Narcotics Team reported in the General Fund as a federal grant	(10,220)
Community Development Block Grant reported In the Major Street Fund as a state grant	<u>484,941</u>
Expenditures per Schedule of Federal Financial Assistance	\$ <u>1,358,739</u>

NOTE 6--RECEIPTS.

Current year receipts represent cash/payments-in-kind received from Federal sources during the period July 1, 2004 through June 30, 2005

NOTE 7--SOURCE DOCUMENTATION.

When possible, project expenditures are vouched to other supporting documentation. Instances, if any, where the federal expenditures do not agree with supporting documents, have been reported as a finding.

City of Alpena

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2005

A. Summary of Audit Results

1. The Auditors' report expresses an unqualified opinion on the financial statements of the City of Alpena.
2. No reportable conditions relating to the audit of the financial statements are reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
3. The results of our tests disclosed no instances of noncompliance material to the financial statements of the City of Alpena that are required to be reported under Government Auditing Standards.
4. No reportable conditions in internal control over Major Programs are reported in the Report on Compliance with Requirements Applicable to each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 and Supplementary Schedule of Federal Financial Assistance.
5. The Auditors' Report on Compliance for Major Programs expresses an unqualified opinion.
6. The Auditors' report disclosed no instances of findings relative to the major federal award programs required to be reported under OMB Circular A-133.
7. Programs tested as major programs:

Community Development Block Grant	CFDA #14.228
-----------------------------------	--------------
8. The threshold for distinguishing Type A and Type B Programs was \$300,000.
9. City of Alpena did not qualify as a low-risk auditee under criteria in Section 530 of (OMB) Circular A-133.

B. Summary of Findings Relating to the Financial Statements.

There were no findings relating to the financial statements which are required to be reported under generally accepted government auditing standards.

C. Findings and Questioned Costs of Major Federal Award Programs.

There were no findings or questioned costs related to the major federal award programs for the year ended June 30, 2005.

City of Alpena

REPORT ON PRIOR AUDIT FINDINGS

For the year ended June 30, 2005

There were no findings or questioned costs in the prior year.

City of Alpena

CORRECTIVE ACTION PLAN

For the year ended June 30, 2005

A corrective action plan is not required since there are no findings or questioned costs.